



JSC "GAZPROM"

**Admission to Listing on the Official List and to Trading on the London Stock Exchange of
up to 10,649,499,318 Additional Level I American Depositary Shares**

There are currently admitted to listing on the official list (the "Official List") of the U.K. Listing Authority (the "UKLA"), a division of the U.K. Financial Services Authority (the "FSA"), in its capacity as competent authority under the Financial Services and Markets Act 2000 ("FSMA") and to trading on the regulated market for listed securities through the International Order Book (regulated market segment) ("IOB") of the London Stock Exchange plc (the "London Stock Exchange"), a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC (the "Regulated Market"), 1,187,257,132 American depositary shares ("ADSs", as further defined below), comprising (a) Level I ADSs (as defined below), each representing two ordinary shares of JSC "GAZPROM", a company incorporated as an open joint stock company under the laws of the Russian Federation ("Gazprom"), with a nominal value of RR5 per ordinary share (each a "Share" and, together, the "Shares") and (b) Rule 144A ADSs (as defined below), each representing 10 Shares of Gazprom. This Prospectus relates to an admission to listing on the Official List of the UKLA and to trading on the Regulated Market of up to 10,649,499,318 additional ADSs, consisting of (i) 2,236,594,545 Level I ADSs outstanding on September 22, 2011 (being the latest practicable date prior to the publication of this Prospectus), and (ii) up to 8,412,904,773 additional Level I ADSs to be issued from time to time against the deposit of Shares with the Depositary under the Deposit Agreements (each as defined below). Only Shares that are in existence as at the date of admission of the ADSs to the Official List of the UKLA and to the regulated market of the London Stock Exchange can be deposited with the Depositary for ADSs; Shares issued after the date of this Prospectus ("New Shares") cannot be used as deposits for ADSs. For ADSs to be issued against such New Shares, Gazprom will produce a prospectus approved by the UKLA to enable such New Shares to be deposited against ADSs.

The ADSs

Gazprom has in issue Level I American depositary shares ("Level I ADSs"), which may be sold inside or outside the United States and (ii) Rule 144A American depositary shares ("Rule 144A ADSs" and, together with the Level I ADSs, the "ADSs"), which may only be sold in the United States to qualified institutional buyers ("QIBs"), as defined in Rule 144A ("Rule 144A") under the U.S. Securities Act of 1933 (the "Securities Act"). The Level I ADSs are issued pursuant to an agreement dated October 25, 1996, as amended and restated as of April 17, 2006, and as further amended by a supplemental agreement dated April 21, 2011 (as so amended, the "Level I Deposit Agreement") between Gazprom and The Bank of New York, now known as The Bank of New York Mellon (the "Depositary"). The Rule 144A ADSs are issued pursuant to an agreement dated October 25, 1996 (the "Rule 144A Deposit Agreement").

The Level I ADSs may be held directly on the books of the Depositary or indirectly through the book-entry settlement system of The Depositary Trust Company ("DTC"). The Rule 144A ADSs may only be held indirectly through the book-entry settlement system of DTC. The additional Level I ADSs being listed hereby will retain the ISIN, CUSIP and Common Code numbers and the London Stock Exchange trading symbol that are currently assigned to Gazprom's existing ADSs.

Risk Factors

Investing in the ADSs involves a high degree of risk. See "Risk Factors" beginning on page 10.

**This Prospectus does not constitute an offer of the ADSs in any jurisdiction.
Dated September 30, 2011**

This Prospectus including the financial information and the appendices included therein comprises a prospectus given in compliance with the Prospectus Rules made under Section 73A of FSMA by the UKLA for the purpose of giving information with respect to Gazprom and the ADSs in connection with the application for admission of the ADSs to the Official List and to trading on the Regulated Market.

Gazprom accepts responsibility for the information contained in this Prospectus, and, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the knowledge and belief of Gazprom, in accordance with the facts and does not omit anything likely to affect the import of such information. Gazprom has not independently verified information which it has obtained from third party sources, including from industry and government bodies in the Russian Federation.

This Prospectus does not constitute an offer for sale of the ADSs in any jurisdiction. Investors in the ADSs must rely on their own examination of Gazprom, including the merits and risks involved. Investors in the ADSs should rely only on the information contained in this Prospectus. Gazprom has not authorised any other person to provide any investors in the ADSs with information regarding the ADSs, other than the information contained herein. If anyone provides any investor in the ADSs with different or inconsistent information, such investor in the ADSs should not rely on it. Each investor in the ADSs should assume that the information appearing in this Prospectus is accurate as at the date on the front cover of this Prospectus only. The business, financial condition, results of operations and the information about Gazprom set forth in this Prospectus may have changed since that date. The contents of Gazprom's websites do not form part of this Prospectus.

Investors in the ADSs should not consider any information in this Prospectus to be investment, legal or tax advice. None of Gazprom or any of its representatives makes any representation to any prospective investor in the ADSs, regarding the legality of an investment by such prospective investor under applicable legal, investment or similar laws. Each prospective investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of the purchase of the ADSs.

This Prospectus is not for publication or distribution, directly or indirectly, in or into any jurisdiction in which the same would be unlawful. This Prospectus is for information purposes only and does not constitute an offer or invitation to acquire or dispose of the ADSs in the United States or any other jurisdiction. The Rule 144A ADSs have not been and will not be registered under the U.S. Securities Act, and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Level I ADSs are registered under the U.S. Securities Act for public sale in the United States, but no Shares are registered under that Act. Gazprom does not currently plan to register or make a public offering of the Shares in the United States. The distribution of this Prospectus may be restricted by law in certain jurisdictions. Persons into whose possession this Prospectus comes are required to inform themselves about, and to observe, any such restrictions. No action has been taken by Gazprom that would permit the possession or distribution of this Prospectus in any jurisdiction where action for that purpose is required.

THE ADSs HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE SECURITIES OR THE ACCURACY OR ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

CREDIT RATING AGENCIES

Each of Fitch Ratings Limited and Moody's Investors Service Ltd. (which provide ratings in relation to Gazprom) are established in the European Union and have applied for registration under Regulation (EU) No 1060/2009 (the "CRA Regulation"), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. Standard & Poor's International Services Inc. (which also provides ratings in relation to Gazprom) is not established in the European Union and has not applied for such registration but the ratings issued by it will be endorsed by Standard & Poor's Credit Market Services France SAS, which is established in the European Union and has applied for registration under the CRA Regulation. Notification of the corresponding registration decision has however, not yet been provided by the relevant competent authority.

NOTICE TO INVESTORS IN THE EEA AND THE UK

This Prospectus is being made available only to persons in member states of the European Economic Area ("EEA") who are "qualified investors" within the meaning of Article 2(1)(e) of Directive 2003/71/EC ("Qualified Investors"). In addition, in the United Kingdom, this Prospectus is being made available only to and is directed at (i) persons who are outside the United Kingdom; (ii) investment professionals falling within Article 19(5) of the Financial Services and Management Act (Financial Promotion) Order 2007 (the "Order"); and (iii) high net worth entities falling within Article 49(2)(a) to (d) of the Order, all such persons together being referred to as "relevant persons". This Prospectus must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors. The ADSs are only available to, and any investment or investment activity to which this Prospectus relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, Qualified Investors, and Gazprom will only engage with such persons in relation to the ADSs. This document must not be acted on or relied on in any member state of the EEA including the United Kingdom by persons who are not Qualified Investors.

NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

INFORMATION CONTAINED IN THIS PROSPECTUS IS NOT AN OFFER, OR AN INVITATION TO MAKE OFFERS, SELL, PURCHASE, EXCHANGE OR TRANSFER ANY ADSs IN THE RUSSIAN FEDERATION, AND DOES NOT CONSTITUTE AN ADVERTISEMENT OF OFFERING OF ANY SECURITIES IN THE RUSSIAN FEDERATION. THE ADSs REFERENCED IN THIS PROSPECTUS HAVE NOT BEEN AND WILL NOT BE REGISTERED IN THE RUSSIAN FEDERATION OR ADMITTED TO PUBLIC PLACEMENT AND/OR PUBLIC CIRCULATION IN THE RUSSIAN FEDERATION AND ARE NOT INTENDED FOR "PLACEMENT" OR "CIRCULATION" IN THE RUSSIAN FEDERATION EXCEPT AS PERMITTED BY RUSSIAN LAWS. ANY INFORMATION ON THE ADSs IN THIS PROSPECTUS IS INTENDED FOR, AND ADDRESSED TO, PERSONS OUTSIDE THE RUSSIAN FEDERATION.

AVAILABLE INFORMATION

Gazprom has agreed that, for so long as the Rule 144A ADSs are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

TABLE OF CONTENTS

	<u>Page</u>
FORWARD-LOOKING STATEMENTS	iv
ENFORCEABILITY OF JUDGEMENTS	vi
PRESENTATION OF CERTAIN INFORMATION	viii
SUMMARY	1
SUMMARY CONSOLIDATED FINANCIAL INFORMATION	4
RISK FACTORS	10
DIVIDEND POLICY	34
CAPITALISATION	35
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	36
GAZPROM	92
MANAGEMENT OF GAZPROM	160
SHAREHOLDING STRUCTURE OF GAZPROM	169
DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION	170
CERTAIN TRANSACTIONS	185
DESCRIPTION OF THE ADSs	190
TRANSFER RESTRICTIONS	202
INFORMATION REGARDING THE ADR DEPOSITARY	203
SETTLEMENT AND TRANSFER	204
TAXATION	207
OVERVIEW OF THE RUSSIAN GAS INDUSTRY, CLASSIFICATION OF RESERVES AND CERTAIN APPLICABLE REGULATORY MATTERS	217
INDEPENDENT AUDITORS	230
LISTING AND GENERAL INFORMATION	231
GLOSSARY OF SELECTED TERMS	235
CONVERSION TABLE	237
INDEX TO FINANCIAL STATEMENTS	F-1
APPENDIX A CERTAIN EXPLORATION AND PRODUCTION INFORMATION OF THE GAZPROM GROUP	A-1

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are "forward-looking" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. This Prospectus contains certain forward-looking statements in various locations, including, without limitation, under the headings "Overview," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Gazprom." We may from time to time make written or oral forward-looking statements in reports to our shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of our plans, objectives or goals, including those related to products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by us from time to time (but that are not included in this Prospectus) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

Words such as "believes," "anticipates," "expects," "estimates," "intends" and "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the prevailing global and domestic economic environment;
- inflation, interest rate and exchange rate fluctuations;
- the prices of natural gas and crude oil;
- our ability to finance our anticipated capital expenditures at least in part through the global capital markets, revenue from operations or otherwise;
- the effects of, and changes in, the policies of the government of the Russian Federation (the "Government");
- the inherent uncertainties in estimating our reserves of natural gas, gas condensate and crude oil;
- the effects of competition in the geographic and business areas in which we conduct operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- our ability to increase market share for our products and control expenses;
- acquisitions or divestitures;
- technological changes;
- the effects of international political events on our businesses;

- our ability to manage operational risks in our gas and crude oil exploration, production and transportation activities and other business operations; and
- our success at managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise except as otherwise required by applicable law. We do not make any representation, warranty or prediction that the results or events anticipated by such forward-looking statements will be achieved or occur, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

ENFORCEABILITY OF JUDGEMENTS

Gazprom is an open joint stock company incorporated under the laws of the Russian Federation, and most of our assets are currently located outside the United States and the United Kingdom. In addition, all of our directors and executive officers are residents of countries other than the United States and the United Kingdom. As a result, it may not be possible for you to:

- effect service of process within the United States or the United Kingdom upon us or any of our directors or executive officers named in this Prospectus; or
- enforce, in the U.S. or English courts, judgements obtained outside the U.S. or English courts against us or any of our directors and executive officers named in this Prospectus in any action, including actions under the civil liability provisions of the U.S. securities laws or any state or territory of the United States.

In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions located outside the United States or the United Kingdom, liabilities predicated upon the U.S. securities laws or upon English laws.

Judgements rendered by a court in any jurisdiction outside the Russian Federation will be recognised and enforced, without re-examination of the issues, by courts in the Russian Federation only if an international treaty providing for the recognition and enforcement of judgements in civil cases exists between Russia and the country where the judgement is rendered and/or a federal law is adopted in the Russian Federation that provides for the recognition and enforcement of foreign court judgements. No such treaty exists between the United States and the Russian Federation or the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgements and no relevant federal law on enforcement of foreign court judgements has been adopted in the Russian Federation. However, we are also aware of at least two instances in which Russian courts have recognised and enforced an English court judgement, on the basis of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgement in the Russian Federation. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgement on these grounds.

In addition, Russian courts have limited experience in the enforcement of foreign court judgements. The limitations described above may significantly delay the enforcement of any court judgement, or completely deprive investors of effective legal recourse for claims related to their investment in the ADSs.

The Russian Federation is party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation).

However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including:

- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

The Arbitrazh procedural code of the Russian Federation (the "Arbitrazh Procedural Code") sets out certain grounds for Russian courts to refuse to recognise and enforce any such arbitral award. The Arbitrazh Procedural Code and other Russian procedural legislation could change; therefore, among other things, other grounds for Russian courts to

refuse the recognition and enforcement of foreign courts' judgements and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgement or foreign arbitral award in the Russian Federation.

PRESENTATION OF CERTAIN INFORMATION

References

In this Prospectus, the terms "we," "us," "our," "Gazprom Group," and "Group" refer to JSC "GAZPROM" (also known as OAO Gazprom) and its consolidated subsidiaries, taken as a whole, unless the context otherwise requires. The term "Gazprom" refers to JSC "GAZPROM".

Unless the context otherwise requires, in this Prospectus the term "Gazprom Neft" refers to OAO Gazprom Neft (formerly OAO Sibneft) and its consolidated subsidiaries, taken as a whole. The term "Sibur Holding" refers to OAO Sibur Holding and its consolidated subsidiaries, taken as a whole.

The term "Russia" refers to the Russian Federation. The term "FSU" refers to the countries of Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. The term "Europe" refers to western Europe and central and eastern Europe. The term "Europe and Other Countries" refers to countries other than Russia and the FSU countries. Definitions of certain other terms used in this Prospectus may be found under the heading "Glossary of Selected Terms."

Unless otherwise indicated, we present our reserves information in this Prospectus in accordance with the Russian reserves system, except that our proved, probable and possible reserves are presented in accordance with the PRMS Standards. The Russian reserves system differs significantly from the PRMS Standards (see "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters").

We measure our gas condensate and crude oil in metric tons. This Prospectus contains conversions of certain volumes from tons into barrels solely for the convenience of the reader. The conversion of volumes from metric tons to barrels varies at each of our fields due to different geological conditions. In this Prospectus, however, we use a conversion rate for all conversions of tons to barrels of one ton of crude oil = 7.33 barrels of crude oil and one ton of gas condensate = 8.18 barrels of gas condensate. This Prospectus also contains conversions of cubic meters of natural gas and barrels of gas condensate and crude oil into barrels of oil equivalent solely for the convenience of the reader. In this Prospectus, we use a conversion rate for all conversions of one mcm of natural gas = 5.89 barrels of oil equivalent, one barrel of gas condensate = one barrel of oil equivalent and one barrel of crude oil = one barrel of oil equivalent.

Unless otherwise indicated, the proved and probable gas reserves of Gazprom and its subsidiaries are expressed in this Prospectus in terms of "separator" gas. Generally, separator gas is gas that has not been treated and therefore includes an amount of gas that is not sold to customers.

Our reserves and production calculation methodology is consistent with International Financial Reporting Standards ("IFRS") consolidation principles. Thus, reserves and production information of our subsidiaries is included in full in our total reserves and production, disregarding our effective share in such subsidiaries. The information on hydrocarbon reserves and production of our associated companies are not consolidated in accordance with IFRS consolidation principles and are therefore excluded from our total reserves and production figures. However, material information on the ABC₁ hydrocarbon reserves of our associated companies is presented separately (see "Gazprom—Reserves and Production – Reserves").

Presentation of Financial Information

The financial information set forth in this Prospectus has been extracted from our:

- (a) audited consolidated financial statements as at and for the year ended December 31, 2010 prepared in accordance with IFRS and reported upon by ZAO PricewaterhouseCoopers Audit, with a comparison against the unaudited and revised consolidated financial statements as at and for the year ended December 31, 2009;

- (b) audited consolidated financial statements as at and for the year ended December 31, 2009 prepared in accordance with IFRS and reported upon by ZAO PricewaterhouseCoopers Audit, with a comparison against the the unaudited and revised consolidated financial statements as at and for the year ended December 31, 2008;
- (c) audited consolidated financial statements as at and for the year ended December 31, 2008 prepared in accordance with IFRS and reported upon by ZAO PricewaterhouseCoopers Audit; and
- (d) unaudited consolidated interim condensed financial information as at and for the three months ended March 31, 2011 with a comparison against the consolidated interim condensed financial information as at and for the three months ended March 31, 2010, prepared in accordance with IFRS.

In 2010, the Group finalised assessment of the fair values of the assets and liabilities acquired in the business combinations that had occurred in 2009. In accordance with IFRS 3 "Business Combinations" management revised the preliminary assessment made as of the acquisition date and amended some measurements of assets and liabilities as of December 31, 2009. As a result, certain 2009 financial information that is included in the financial statements for the year ended December 31, 2010 (the "Unaudited Revised 2009 Financial Information") is different to the corresponding 2009 financial information that is included in the financial statements for the year ended December 31, 2009 (the "Audited 2009 Financial Information"). Further, in 2009, the Group changed the presentation of sales and purchases associated with the contracts entered into for trading purposes which are now presented in a separate line as "Net gain from trading activity". Prior to 2009, sales and purchases associated with such contracts used to be presented on a gross basis in sales and operating expenses. The presentation of 2008 comparative financial information has been changed to be consistent with the net presentation. As a result, certain 2008 financial information that is included in the financial statements for the year ended December 31, 2009 (the "Unaudited Revised 2008 Financial Information") is different to the corresponding 2008 financial information that is included in the financial statements for the year ended December 31, 2008 (the "Audited 2008 Financial Information"). For these reasons, where appropriate, both the Unaudited Revised 2009 Financial Information (as extracted from the financial statements for the year ended December 31, 2010) and the Audited 2009 Financial Information (as extracted from the financial statements for the year ended December 31, 2009) have been provided. Similarly, where appropriate, both the Unaudited Revised 2008 Financial Information (as extracted from the financial statements for the year ended December 31, 2009) and the Audited 2008 Financial Information (as extracted from the financial statements for the year ended December 31, 2008) have been provided. The Unaudited Revised 2009 Financial Information and the Unaudited Revised 2008 Financial Information are not covered by the respective audit reports issued by ZAO PricewaterhouseCoopers and included in the financial statements for the years ended December 31, 2010 and December 31, 2009, respectively.

Reproduction of Information

Information contained under the heading "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters" includes extracts from information and data publicly released by official and other sources, being the Federal State Statistics Service, the Central Bank of Russia, CDU TEC and the International Natural Gas Center "CEDIGAZ". We accept responsibility for accurately reproducing such information and data and, as far as Gazprom is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading, but we accept no responsibility in respect of such information and data or its accuracy.

Currencies

In this Prospectus, references to "Russian Roubles," "rubles" and "RR" are to the lawful currency for the time being of Russia; references to "U.S. dollars," "dollars" and "U.S.\$" are to the lawful currency for the time being of the United States of America; references to "£" are to the lawful currency for the time being of the United Kingdom and references to "€" and "euro" are to the lawful currency for the time being of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended.

Exchange Rates

The table below sets out, for the periods and dates indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on the official exchange rate quoted by the Central Bank of the Russian

Federation (the "CBR"). Fluctuations in the exchange rates between the ruble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

	High	Low	Average⁽¹⁾	Period End
2011 (through September 22, 2011)	31.50	27.26	28.63	31.41
2010	31.78	28.93	30.38	30.48
2009	36.43	28.67	29.45	30.24
2008	29.38	23.13	24.98	29.38
2007	26.58	24.26	25.49	24.55
2006	28.48	26.18	27.09	26.33

Source: The CBR (source: www.cbr.ru).

Note:

- (1) The average of the exchange rates on the last business day of each month for the relevant annual period, and on each business day for any other period.

This Prospectus contains conversions of certain amounts into dollars at specified rates solely for the convenience of the reader. The U.S. dollar amounts have been translated from the ruble amounts at the rate of $RR28.4290 = U.S.\$1.00$, which was the CBR rate on March 31, 2011. The CBR rate on September 22, 2011 was $RR31.4122 = U.S.\$1.00$.

No representation is made that the U.S. dollar or ruble amounts referred to in this Prospectus could have been or could be converted into rubles or U.S. dollars, as the case may be, at the above exchange rates or at all.

Websites

Any website referred to in this document does not form part of this Prospectus.

SUMMARY

The following summary information should be read as an introduction to the Prospectus. Any decision to invest in the ADSs should be based on consideration of this Prospectus as a whole by the investor. Where a claim relating to the information contained in a prospectus is brought before a court, the plaintiff investor might, under the national legislation of the member states of the EEA, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches to those persons who have tabled this summary including any translation thereof, and applied for its notification, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus.

Gazprom

We are one of the world's largest oil and gas companies in terms of reserves, production and market capitalisation. For the year ended December 31, 2010, our sales net of excise tax, VAT and customs duties were RR3,597,054 million (U.S.\$126,528 million) and our operating profit was RR1,113,822 million (U.S.\$39,179 million). As of December 31, 2010, we had total assets of RR9,235,993 million (U.S.\$324,879 million) and total shareholders' equity (excluding minority interest) of RR6,249,751 million (U.S.\$219,837 million). The consequences of the global financial crisis negatively affected our financial position and operating results in production, transportation and other operations in 2009. However, our financial position and operating results for the year ended December 31, 2010 improved compared to the year ended December 31, 2009.

Strengths

- **Reserves:** We are a worldwide leader in terms of hydrocarbon reserves. In accordance with the PRMS standards, as of December 31, 2010, we had proved and probable reserves of 22,520.3 bcm (132,644.6 mmboe) of natural gas, 719.3 million tons of gas condensate (5,883.9 mmboe) and 1,181.9 million tons of crude oil (8,663.3 mmboe) for a total of 147,191.8 mmboe.
- **Exploration and production:** Our natural gas production represented approximately 78% and 79% of total natural gas production in Russia in 2010 and 2009, respectively (based on CDU TEC (source: www.cdu.ru) and Gazprom figures). Our natural gas production in western Siberia accounts for over 90% of our natural gas production. In the year ended December 31, 2010, we produced 508.6 bcm (2,995.6 mmboe) of natural gas and 11.3 million tons (92.4 mmboe) of gas condensate, as compared with 461.5 bcm (2,718.4 mmboe) of natural gas and 10.1 million tons (82.4 mmboe) of gas condensate for the year ended December 31, 2009. We have a rapidly growing oil segment and in the year ended December 31, 2010, we produced 32.0 million tons (234.6 mmboe) of crude oil, as compared with 31.6 million tons (231.8 mmboe) of crude oil for the year ended December 31, 2009.
- **Gas Transportation:** We operate the world's largest gas transportation system, including the UGSS which collects, processes, transports, stores and delivers substantially all of the natural gas sold in Russia.
- **Processing, refining and petrochemical production:** We refine a large amount of the natural and associated gas, gas condensate and crude oil that we produce, enjoying a leading position in hydrocarbons refining amongst Russian companies.
- **Gas Sales:** We supply a major part of the natural gas consumed in Russia, a significant portion of the natural gas consumed in the FSU countries and in 2010 we were the largest supplier of natural gas to Europe.
- **Electricity:** In recent years we have consolidated our electric power and heat generating assets.
- **Relationship with the Government:** As our controlling shareholder, the Russian Federation is able to determine our strategy, make policy decisions in relation to the main areas of our business (including investments, borrowings, risk management and asset allocation), and supervise the implementation of such decisions.

Strategy

Our strategy is to continue to be a leader among global energy companies by penetrating new markets, diversifying our activities and increasing the reliability of our natural gas supplies. These include:

- *Exploration and production.* In addition to conducting geological exploration works in our main production regions, we also intend to develop new strategic fields in the Yamal Peninsula in western Siberia, the Russian sea shelf, in eastern Siberia and the Far East as well as expand our reserves outside of the Russian Federation and obtain licences for exploration and development of hydrocarbon reserves in various international regions.
- *Refining.* We intend to increase our production of refined products, the extraction of valuable components from our gas, the depth of our feedstock processing and our refining throughput, primarily by increasing our processing capacities. Our oil business development strategy provides for an increase in crude oil refining by Gazprom Neft to up to 70 million tons per year by 2020. Gazprom Neft also plans to implement programmes to improve the quality of the motor fuel that it produces, increase processing depth and intensify technical re-equipment of all oil refineries of the Group.
- *Marketing and sales.* Our strategy for the Russian domestic market consists of ensuring a continuous gas supply while improving our profitability by achieving a transition from the regulation of our wholesale gas prices to the regulation of gas transportation tariffs through trunk pipelines for all gas suppliers. On the other hand in order to consolidate our position in the European market we intend to develop relationships with traditional customers on a long-term contractual basis and use new forms of trade based on short-term and medium-term sales, as well as gas exchange, spot and one-time transactions, to expand the use of UGSFs in Europe and increase our ownership in companies engaged in the sale of gas and electricity to end-users.
- *Electricity.* We believe that we can improve the stability of our business and achieve additional revenue by increasing our share within the power generation sector which would enable us to diversify tariff risks and realise underlying synergies with our gas business. We are considering investing in the construction of, and in acquiring, European electricity power assets to increase our efficiency and improve our position in the European electricity markets. We are also increasing our cooperation with utility companies that have a pre-existing client base and technology that we believe will expand our presence in the international electricity market.
- *Diversification of products and activities.* To continue our development as a global energy company, we are integrating new products and activities with our traditional pipeline gas supplies.

The ADSs

The Level I ADSs (each representing two Shares) are issued pursuant to an agreement dated October 25, 1996, as amended and restated as of April 17, 2006, and as further amended by a supplemental agreement dated April 21, 2011 between Gazprom and The Bank of New York, now known as The Bank of New York Mellon, as Depositary. The Rule 144A ADSs (representing ten Shares) are issued pursuant to an agreement dated October 25, 1996. Gazprom's Level I ADSs are freely tradeable on the over-the-counter stock market in the United States, the London Stock Exchange under the symbol OGZD and on other European exchanges such as the Berlin-Bremen Stock Exchange and the Frankfurt Stock Exchange. The Rule 144A ADSs were previously issued in the United States to QIBs.

Share Capital

As of the date of this Prospectus, Gazprom's charter capital amounted to RR118,367,564,500, consisting of 23,673,512,900 common shares with a nominal value of RR5 each.

Risk Factors

An investment in the ADSs is subject to risks relating to our business and industry, economic, political, social and legal risks associated with Russia as well as risks arising from the nature of the ADSs and the markets upon which they are expected to be traded, including risks associated with the following matters:

- Decline in international prices for crude oil.
- Requirement to supply a significant portion of natural gas to customers in Russia at Government regulated prices.
- Negative economic developments and conditions in our markets.
- Delayed, non-collectible and non-cash payments by our customers.
- Substantial tax burden.
- The Government's strong influence over our operations.
- Inability to successfully integrate and/or finance our recent or future acquisitions.
- Reorganisation of our business by State authorities to increase competition in the gas sector.
- Suspension, amendment or termination of our licences and failure to obtain or maintain various permits and authorisations.
- Requirement for capital expenditures in order to replace diminishing production in our operating fields and maintain and develop our gas transportation system.
- Non-availability of debt financing for our anticipated capital expenditures on desirable terms or at all.
- Operational risks, which may result in losses and which may not be covered by insurance.
- Competition in our largest business, natural gas sales, from alternative fuel sources and other natural gas producers and suppliers.
- Dependence on links with other gas pipeline networks that we do not control for the export of natural gas.
- Adverse effects of any major disruption in the Transneft system and continuing increases in Transneft's fees.
- Potential material costs in complying with environmental, health, and safety laws and regulations.
- Uncertainties inherent in estimating our reserves.
- Violations of existing international or U.S. sanctions.
- Failure to develop business outside the Russian Federation.
- Risks related to the Russian Federation, including political, economic and social risks.
- Risks relating to the Russian legal system and Russian legislation.
- Risks relating to the ADSs.

The foregoing is not a comprehensive list of the risks to which we or the ADSs may be subject.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information set forth below shows our consolidated financial information as of and for the three months ended March 31, 2011 and 2010, and as of December 31, 2010, 2009 and 2008 and for the years then ended. The unaudited consolidated interim condensed financial information as of and for the three months ended March 31, 2011 and 2010 has been extracted from and should be read in conjunction with the unaudited consolidated interim condensed financial information included elsewhere in this Prospectus. The annual consolidated financial information as of December 31, 2010, 2009 and 2008 and for the years then ended has been extracted from, and should be read in conjunction with, the annual audited consolidated financial statements included elsewhere in this Prospectus.

In 2010, the Group finalised assessment of the fair values of the assets and liabilities acquired in the business combinations that had occurred in 2009. In accordance with IFRS 3 "Business Combinations" management revised the preliminary assessment made as of the acquisition date and amended some measurements of assets and liabilities as of December 31, 2009. As a result, certain 2009 financial information that is included in the financial statements for the year ended December 31, 2010 (the "Unaudited Revised 2009 Financial Information") is different to the corresponding 2009 financial information that is included in the financial statements for the year ended December 31, 2009 (the "Audited 2009 Financial Information"). Further, in 2009, the Group changed the presentation of sales and purchases associated with the contracts entered into for trading purposes which are now presented in a separate line as "Net gain from trading activity". Prior to 2009, sales and purchases associated with such contracts used to be presented on a gross basis in sales and operating expenses. The presentation of 2008 comparative financial information has been changed to be consistent with the net presentation. As a result, certain 2008 financial information that is included in the financial statements for the year ended December 31, 2009 (the "Unaudited Revised 2008 Financial Information") is different to the corresponding 2008 financial information that is included in the financial statements for the year ended December 31, 2008 (the "Audited 2008 Financial Information"). For these reasons, where appropriate, both the Unaudited Revised 2009 Financial Information (as extracted from the financial statements for the year ended December 31, 2010) and the Audited 2009 Financial Information (as extracted from the financial statements for the year ended December 31, 2009) have been provided. Similarly, where appropriate, both the Unaudited Revised 2008 Financial Information (as extracted from the financial statements for the year ended December 31, 2009) and the Audited 2008 Financial Information (as extracted from the financial statements for the year ended December 31, 2008) have been provided. The Unaudited Revised 2009 Financial Information and the Unaudited Revised 2008 Financial Information are not covered by the respective audit reports issued by ZAO PricewaterhouseCoopers and included in the financial statements for the years ended December 31, 2010 and December 31, 2009, respectively.

Our annual consolidated financial statements have been prepared in accordance with IFRS, which includes International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board (the "IASB"). IFRS differs in certain respects from U.S. GAAP. In the preparation of our consolidated financial statements, the principal accounting policies have been consistently applied to all the periods presented, unless otherwise disclosed in the notes to those financial statements.

The U.S. dollar amounts set forth below were not included in our annual audited consolidated financial statements and are provided for convenience only. Totals may not sum due to rounding. They should not be construed as representations that the RR amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of the U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR28.4290 = U.S.\$ 1.00, which was the CBR rate on March 31, 2011.

	Three months ended March 31,				Year ended December 31, ⁽¹⁾				Year ended December 31, ⁽²⁾				Year ended December 31, ⁽³⁾	
	2011		2010		2010		2009		2009		2008		2008	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)													
	Unaudited		Audited		Unaudited Revised		Audited		Unaudited Revised		Audited			
Statement of Income														
Sales.....	46,317	1,316,747	33,569	954,327	126,528	3,597,054	105,210	2,991,001	105,208	2,990,971	115,568	3,285,486	123,781	3,518,960
Net gain from trading activity ⁽⁴⁾	(12)	(330)	(7)	(196)	220	6,256	147	4,171	292	8,295	148	4,221	-	-
Operating expenses ⁽⁵⁾	(28,770)	(817,909)	(21,627)	(614,830)	(85,855)	(2,440,777)	73,616	2,092,832	(75,358)	(2,142,354)	(71,385)	(2,029,401)	(79,449)	(2,258,654)
Operating profit.....	17,535	498,508	11,935	339,301	39,179	1,113,822	30,142	856,912	30,142	856,912	44,332	1,260,306	44,332	1,260,306
Net interest expense ⁽⁶⁾	(453)	(12,876)	(236)	(6,719)	(634)	(18,022)	(1,316)	(37,405)	(1,316)	(37,405)	(460)	(13,088)	(460)	(13,088)
Net monetary effects and other financing items ⁽⁷⁾	2,341	66,566	(2,084)	59,256	729	20,716	(995)	(28,283)	(995)	(28,283)	(5,716)	(162,488)	(5,716)	(162,488)
Other ⁽⁸⁾	(1,367)	(38,868)	1,050	(29,858)	5,529	157,187	6,620	188,211	6,620	188,211	(1,868)	(53,098)	(1,868)	(53,098)
Profit tax expense of which.....	(3,960)	(112,566)	(2,985)	(84,847)	(9,698)	(275,710)	(6,530)	(185,642)	(6,530)	(185,642)	(9,154)	(260,252)	(9,154)	(260,252)
Current profit tax expense.....	(3,829)	(108,864)	(1,937)	(55,053)	(8,772)	(249,387)	(6,411)	(182,255)	(6,411)	(182,255)	(10,802)	(307,094)	(10,802)	(307,094)
Deferred profit tax (expense) benefit.....	(130)	(3,702)	(1,048)	(29,794)	(926)	26,323	(119)	(3,387)	(119)	(3,387)	1,648	46,842	1,648	46,842
Profit for the period.....	16,831	478,500	11,849	336,849	35,105	997,993	27,922	793,793	27,922	793,793	27,134	771,380	27,134	771,380
Profit attributable to non-controlling interest.....	370	10,531	418	11,896	1,035	29,436	500	14,208	500	14,208	1,001	28,452	1,001	28,452
Profit attributable to equity holders of Gazprom.....	16,461	467,969	11,430	324,953	34,069	968,557	27,422	779,585	27,422	779,585	26,133	742,928	26,133	742,928
	As of March 31,		As of December 31, ⁽¹⁾		As of December 31, ⁽²⁾		As of December 31, ⁽³⁾							
	2011		2010		2009		2009		2008		2008		2008	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)													
	Unaudited		Audited		Unaudited Revised		Audited		Unaudited Revised		Audited			
Balance Sheet														
Assets														
Total current assets, of which.....	67,378	1,915,486	65,634	1,865,895	59,340	1,686,974	59,381	1,688,136	55,298	1,572,075	55,298	1,572,075		
Cash and cash equivalents and certain restricted cash ⁽⁹⁾	15,751	447,778	15,634	444,455	8,913	253,398	8,785	253,398	12,221	347,418	12,221	347,418		
Total long-term assets, of which.....	267,070	7,592,523	259,246	7,370,098	235,026	6,681,554	234,798	6,675,079	196,859	5,596,493	196,859	5,596,493		
Property, plant and equipment.....	196,659	5,590,829	192,987	5,486,429	172,332	4,899,223	172,145	4,893,918	141,423	4,020,522	141,423	4,020,522		
Total assets.....	334,448	9,508,009	324,879	9,235,993	294,336	8,368,528	294,179	8,363,215	252,157	7,168,568	252,157	7,168,568		
Liabilities and Equity														
Total current liabilities, of which.....	29,961	851,757	35,571	1,011,261	36,860	1,047,892	36,829	1,047,015	33,939	964,845	33,939	964,845		
Taxes payable.....	6,233	177,188	4,136	117,569	3,841	109,201	3,810	108,324	2,019	57,396	2,019	57,396		
Short-term borrowings and current portion of long-term borrowings.....	6,310	179,398	6,713	190,845	14,944	424,855	14,944	424,855	15,218	432,640	1,522	432,640		
Short-term promissory notes payable.....	2	51	7	207	414	11,761	414	11,761	283	8,052	283	8,052		
Total long-term liabilities, of which.....	58,950	1,675,888	59,389	1,688,371	58,789	1,671,315	58,752	1,670,254	45,398	1,290,624	45,398	1,290,624		
Long-term borrowings.....	39,003	1,108,829	39,551	1,124,395	41,664	1,184,457	41,664	1,184,457	32,475	923,230	3,247	923,230		
Long-term promissory notes payable.....	-	-	-	-	162	4,592	162	4,592	60	1,718	60	1,718		
Restructured tax liabilities ⁽⁷⁾	-	-	0	1	1	40	0	40	4	124	4	124		
Total liabilities.....	88,911	2,527,645	94,960	2,699,632	95,649	2,719,207	95,581	2,717,269	79,337	2,255,469	79,337	2,255,469		
Total equity, of which.....	245,537	6,980,364	229,919	6,536,361	198,717	5,649,321	198,598	5,645,946	172,820	4,913,099	172,820	4,913,099		
Non-controlling interest.....	9,622	273,530	10,082	286,610	11,355	322,806	11,236	319,431	10,833	307,984	10,833	307,984		
Shareholders' equity.....	235,915	6,706,834	219,837	6,249,751	187,362	5,326,515	187,362	5,326,515	161,987	4,605,115	161,987	4,605,115		
	As of and for the three months ended March 31,				As of and for the year ended December 31, ⁽¹⁾				As of and for the year ended December 31, ⁽²⁾				As of and for the year ended December 31, ⁽³⁾	
	2011		2010		2010		2009		2009		2008		2008	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions, except for ratios)													
	Unaudited		Audited		Unaudited Revised		Audited		Unaudited Revised		Audited			
Certain Items and Ratios														
Adjusted EBITDA ⁽⁴⁾	19,869	564,860	14,090	400,577	47,758	1,357,700	38,339	1,089,951	38,399	1,089,951	46,924	1,463,805	51,490	1,463,805
Gross interest expense ⁽¹¹⁾	(595)	(16,918)	(502)	(14,279)	(1,362)	(38,714)	(2,609)	(74,167)	(2,609)	(74,167)	(1,920)	(59,910)	(2,107)	(59,910)
Net interest expense ⁽⁶⁾	(453)	(12,876)	(236)	(6,719)	(634)	(18,022)	(1,316)	(37,405)	(1,316)	(37,405)	(420)	(13,088)	(460)	(13,088)
Total debt ⁽¹²⁾	45,316	1,288,278	46,271	1,315,448	46,271	1,315,448	57,185	1,625,705	57,185	1,625,705	43,781	1,365,764	48,041	1,365,764
Net debt ⁽¹³⁾	29,565	840,500	30,637	870,993	30,637	870,993	48,271	1,372,307	48,271	1,372,307	32,644	1,018,346	35,821	1,018,346
Adjusted EBITDA/Gross interest expense.....	(33.39)	(28.51)		(35.07)		(14.70)		(14.70)		(24.43)		(24.43)		
Adjusted EBITDA/Net interest expense.....	(43.87)	(60.59)		(75.34)		(29.14)		(29.14)		(111.84)		(111.84)		
Net debt/Adjusted EBITDA ⁽¹⁴⁾	0.55	0.85		0.64		1.26		1.26		0.70		0.70		

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS. The Unaudited Revised 2008 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2008 Financial Information.
- (3) As extracted from our consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with IFRS.
- (4) Adjusted EBITDA is a non-GAAP measure derived from operating profit by adjusting it for depreciation, impairment charges, provisions of accounts receivable and prepayments and certain provisions for fixed assets.
- (5) Includes impairment provisions for accounts receivable and prepayments, assets under construction, fixed assets, investments and other long-term assets and inventory obsolescence.
- (6) Gross interest expense less interest income.
- (7) Exchange gains and gains on and extinguishment of restructured liabilities, less exchange losses.

With respect to gains on and extinguishment of restructured liabilities, on September 3, 1999 the Government issued regulation No. 1002 allowing certain companies to negotiate the restructuring of various overdue taxes, interest and fines due to the federal government authorities over ten years. Interest accrues on the restructured tax payables (excluding interest and fines) at a rate of 5.5% per annum, representing 1/10 of the CBR's annual refinancing rate (55%) as specified in the regulation, and is paid quarterly. Current tax payments must be made timely. If the terms of the restructuring are violated, the original nominal value of the tax payable (including interest and fines) becomes due with additional interest of 1/300 of the CBR refinancing rate accruing for each day since the restructuring agreement. Certain of our subsidiaries have signed such restructuring agreements. This resulted in the recognition of a gain in the respective periods based on the difference between the estimated fair value of the new agreements (based on discounted future cash flows) and the carrying amount of the old payables. This gain is reflected in gain on restructured taxes. Following the restructurings, we recognise the amortisation of the discount and the interest accruing under the restructuring agreements as interest expense on taxes payable, which also includes interest that accrues when tax payments are overdue.

- (8) Share of net income of associated undertakings and gains on available-for-sale investments. The year ended December 31, 2008 includes loss from a change in the fair value of a call option. The year ended December 31, 2009 includes purchase of non-controlling interest in OAO Gazprom neft, loss from a change in the fair value of a call option and gain from swap of assets transaction.
- (9) Cash and cash equivalents and certain restricted cash include balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations but exclude cash restricted as to withdrawal under banking regulations.
- (10) Reconciliation from Adjusted EBITDA to operating profit:

	Three months ended March 31,				Year ended December 31, ⁽¹⁾				Year ended December 31, ⁽²⁾				Year ended December 31, ⁽³⁾	
	2011		2010		2010		2009		2009		2008		2008	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)													
	Unaudited				Audited				Audited				Unaudited	
					Revised								Revised	
Adjusted EBITDA.....	19,869	564,860	14,090	400,577	47,758	1,357,700	38,339	1,089,951	38,339	1,089,951	51,490	1,463,805	51,490	1,463,805
Less: Depreciation.....	(2,356)	(66,968)	(2,163)	(61,502)	(8,569)	(243,615)	(7,781)	(221,197)	(7,781)	(221,197)	(6,680)	(195,016)	(6,860)	(195,016)
less: releases (charges) of provisions for impairment of assets ⁽²⁾	(14)	(391)	(149)	(4,242)	(1,713)	(48,711)	(1,598)	(45,428)	(1,598)	(45,428)	(3,481)	(98,964)	(3,481)	(98,964)
plus: (releases) charges of provisions of accounts receivable and prepayments and certain provisions for fixed assets.....	35	1,007	157	4,468	1,704	48,448	1,181	33,586	1,181	33,586	3,183	90,481	3,183	90,481
Operating profit.....	17,535	498,508	11,935	339,301	39,179	1,113,822	30,142	856,912	30,142	856,912	44,332	1,260,306	44,332	1,260,306

Adjusted EBITDA should not be considered as an alternative to profit, operating profit, net cash provided by operating activities or any other measure of performance under IFRS and may not be comparable to similar non-GAAP measures used by other companies.

Notes:

- (11) Interest expense on taxes payable, short- and long-term debt and other interest expense, excluding capitalised interest on borrowings.
- (12) Short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities.
- (13) Total debt less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.
- (14) Adjusted EBITDA for the twelve months ended March 31, 2011 and 2010 and net debt as of the balance sheet date, Adjusted EBITDA was RR1,521,983 million and RR1,153,948 million for the twelve-month periods ended March 31, 2011 and 2010, respectively.

SUMMARY RESERVE INFORMATION

We estimate our reserves of natural gas, gas condensate and crude oil using the Russian reserves system, which differs significantly from the PRMS Standards, in particular with respect to the manner in which and the extent to which economic and commercial factors are taken into account in calculating reserves.

The following table shows our total ABC₁ natural gas, gas condensate and crude oil reserves in accordance with the Russian reserves system, and the percentage share of our ABC₁ reserves evaluated in accordance with the PRMS Standards, as well as our proved, probable and possible reserves determined as a result of this evaluation, as of the dates indicated. We annually publish as part of our annual report information in relation to our reserves and results of our exploration activities in accordance with PRMS Standards. The correlation between ABC₁ reserves and proved, probable and possible reserves may differ in the fields that have not yet been evaluated. Moreover, the correlation may vary at different times for the same fields.

	As of December 31,			As of December 31,		
	2010	2009	2008	2010	2009	2008
	Gas, bcm			Gas, mmmboe		
ABC ₁ reserves (Russian reserves system).....	33,052.3	33,578.4	33,123.2	194,678.0	197,776.8	195,095.6
of which percentage evaluated under PRMS Standards ⁽¹⁾	93%	89%	88%	93%	89%	88%
Proved (PRMS Standards).....	18,991.3	18,609.9	18,187.8	111,858.8	109,612.3	107,126.1
Probable (PRMS Standards).....	3,529.0	3,338.1	3,088.2	20,785.8	19,661.4	18,189.5
Proved + probable (PRMS Standards).....	22,520.3	21,948.0	21,276.0	132,644.6	129,273.7	125,315.6
Possible (PRMS Standards).....	4,608.4	4,199.9	4,192.7	27,143.5	24,737.4	24,695.0
	Gas condensate, million tons			Gas condensate, mmmboe		
ABC ₁ reserves (Russian reserves system).....	1,284.8	1,325.1	1,287.1	10,509.7	10,839.3	10,528.5
of which percentage evaluated under PRMS Standards ⁽¹⁾	86%	82%	85%	86%	82%	85%
Proved (PRMS Standards).....	572.1	586.0	587.9	4,679.8	4,793.5	4,809.0
Probable (PRMS Standards).....	147.2	141.2	141.9	1,204.1	1,155.0	1,160.8
Proved + probable (PRMS Standards).....	719.3	727.2	729.8	5,883.9	5,948.5	5,969.8
Possible (PRMS Standards).....	606.9	624.5	611.6	4,964.4	5,108.4	5,002.9
	Crude oil, million tons			Crude oil, mmmboe		
ABC ₁ reserves (Russian reserves system).....	1,732.9	1,785.0	1,601.7	12,702.2	13,084.1	11,740.5
of which percentage evaluated under PRMS Standards ⁽¹⁾	90%	85%	92%	90%	85%	92%
Proved (PRMS Standards).....	717.4	718.5	713.2	5,258.5	5,266.6	5,227.8
Probable (PRMS Standards).....	464.5	435.5	565.0	3,404.8	3,192.2	4,141.4
Proved + probable (PRMS Standards).....	1,181.9	1,154.0	1,278.2	8,663.3	8,458.8	9,369.2
Possible (PRMS Standards).....	609.8	560.9	807.1	4,469.8	4,111.4	5,916.0
	Gas, gas condensate, crude oil, mmmboe					
ABC ₁ reserves (Russian reserves system).....				217,889.9	221,700.2	217,364.6
of which percentage evaluated under PRMS Standards ⁽¹⁾				92%	88%	88%
Proved (PRMS Standards).....				121,797.1	119,672.4	117,162.9
Probable (PRMS Standards).....				25,394.7	24,008.6	23,491.7
Proved + probable (PRMS Standards).....				147,191.8	143,681.0	140,654.6
Possible (PRMS Standards).....				36,577.7	29,845.8	35,613.9

Note:

- (1) This percentage figure relates to the total percentage of ABC₁ reserves (which are measured in accordance with the Russian reserves system) that are also evaluated in accordance with the PRMS Standards. This demonstrates that the majority of the reserves evaluated in accordance with the Russian reserves system have also been evaluated in accordance with the PRMS Standards. The actual figures for Proved, Probable and Possible reserves in this table have been calculated in accordance with the PRMS Standards.

The following table shows the ABC₁ natural gas, gas condensate and crude oil reserves of our associated companies pro rata to our effective interests therein as of the end of the respective periods.

	As of December 31,		
	2010	2009	2008
Natural gas (bcm).....	645.4	917.2	720.9
(bboe)	3.8	5.4	4.2
Oil and gas condensate (million tons)	669.6	714.9	680.0
(bbls)	5.0	5.3	5.0
Total (bboe)	8.8	10.7	9.2

SUMMARY PRODUCTION INFORMATION

The following table sets forth our summary production data for the periods indicated.

	For the year ended December 31,		
	2010	2009	2008
Natural gas (bcm).....	508.6	461.5	549.7
(mmboe).....	2,995.6	2,718.4	3,237.9
Gas condensate (million tons)	11.3	10.1	10.9
(mmbbls)	92.4	82.4	89.4
Crude oil (million tons)	32.0	31.6	32.0
(mmbbls)	234.6	231.8	234.9
Total (mmboe)	3,322.6	3,032.5	3,562.3

SUMMARY SALES AND OPERATING INFORMATION

The following table summarises certain sales and operating information for the periods indicated.

	Three months ended March 31,				Year ended December 31, ⁽¹⁾				Year ended December 31, ⁽²⁾				Year ended December 31, ⁽³⁾	
	2011		2010		2010		2009		2009		2008		2008	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
(amounts in millions, except volumes)														
	Unaudited				Audited				Unaudited				Unaudited	
									Revised				Revised	
									Audited				Audited	
Gas (bcm).....	178.3	178.3	161.2	161.2	495.6	495.6	478.5	478.5	483.0	483.0	556.3	556.3	573.1	573.1
Domestic sales ⁽⁴⁾	9,358	266,042	8,188	232,783	22,401	636,843	17,697	503,121	17,697	503,121	16,863	479,387	16,863	479,387
Export sales ⁽⁴⁾	24,213	688,364	17,020	483,875	65,133	1,851,658	61,902	1,759,815	61,816	1,757,358	73,129	2,078,980	79,104	2,248,835
FSU ⁽⁴⁾	7,747	220,243	4,165	118,393	17,370	493,806	128	363,400	128	363,400	13,434	381,902	13,434	381,902
Europe and Other Countries ⁽³⁾	16,466	468,121	12,856	365,482	47,763	1,357,852	49,119	1,396,415	49,033	1,393,958	59,695	1,697,078	65,670	1,866,933
Total.....	33,572	954,406	25,209	716,658	87,534	2,488,501	79,600	2,262,936	79,513	2,260,479	89,991	2,558,367	95,966	2,728,222

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS. The Unaudited Revised 2008 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2008 Financial Information.
- (3) As extracted from our consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with IFRS.
- (4) Gross sales (including excise tax and customs duties and net of VAT).

The following table sets out our average realised prices per mcm of natural gas (including excise tax and customs duties and net of VAT) for the periods indicated in nominal terms (actual prices realised at the time). Our sales to Europe and Other Countries and the FSU (other than to Belarus) are denominated in convertible currencies, mainly in U.S. dollars.

	Three months ended March 31,				For the year ended December 31, ⁽¹⁾				For the year ended December 31, ⁽²⁾				Year ended December 31, ⁽³⁾	
	2011		2010		2010		2009		2009		2008		2008	
	Average price ⁽⁴⁾	Nominal RR	Average price ⁽⁴⁾	Nominal RR	Average price ⁽⁴⁾	Nominal RR	Average price ⁽⁴⁾	Nominal RR	Average price ⁽⁴⁾	Nominal RR	Average price ⁽⁴⁾	Nominal RR	Average price ⁽⁴⁾	Nominal RR
	Unaudited				Audited				Unaudited				Unaudited	
									Revised				Revised	
									Audited				Audited	
Europe and Other Countries.....	343.1	10,041.5	293.5	8,771.5	301.8	9,166.6	296.7	9,413.5	287.5	9,120.3	407.4	10,125.4	407.3	10,123.6
FSU.....	258.0	7,552.3	232.9	6,961.4	231.7	7,039.0	202.1	6,411.1	202.1	6,411.1	159.2	3,956.9	159.2	3,956.9
Russia.....	2,596.1	2,596.1	2,271.6	2,271.6	2,296.8	2,296.8	1,839.5	1,839.5	1,839.5	1,839.5	1,640.6	1,640.6	1,640.6	1,640.6

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS. The Unaudited Revised 2008 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2008 Financial Information.
- (3) As extracted from our consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with IFRS.
- (4) Average realised normalised prices and not convenience translations of RR prices.

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Prospectus. Each of the risks highlighted below could have a material adverse effect on our businesses, operations and financial condition or future prospects of the Gazprom Group which, in turn, could cause the price at which the ADSs are traded to fall significantly. You should note that the risks described below are not the only risks we face. We have described only the risks we consider to be material. However, there may be additional risks that we currently consider not to be material or of which we are not currently aware, and any of these risks could have the effects set forth above.

Risks Relating to Our Business

The prices of the natural gas we sell in Europe and most FSU countries under long-term contracts are linked to international prices for oil products, and a decline in international prices for crude oil and oil products has affected, and in future periods could adversely affect, the amount of revenue generated by our natural gas, crude oil and refined product sales in Europe, the FSU and other markets where we sell under such terms.

We sell a substantial portion of our natural gas in Europe, which is our primary source of foreign currency revenues and cash flows. Such sales are generally pursuant to long-term contracts with prices linked to international prices for oil products. Most of our FSU export customers purchase natural gas on similar terms. Changes in the prices we realise on natural gas under our long-term contracts with European and some FSU customers typically lag about six to nine months behind changes in oil product prices. Prices for oil products fluctuate widely in response to changes in many factors over which we have no control. These factors include, but are not limited to:

- global and regional supply and demand for oil products and expectations regarding future supply thereof and demand therefor;
- the impact of recessionary economic conditions on our customers, including reductions in demand for gas and oil products;
- global and regional socioeconomic and political conditions, particularly in the Middle East and other oil producing regions;
- the ability of members of the Organization of Petroleum Exporting Countries ("OPEC") and other crude oil producing nations to influence global production levels and prices;
- other actions taken by certain major crude oil producing or consuming countries or companies;
- prices and availability of alternative fuels and new technologies;
- Russian and foreign governmental regulations, relations and actions, including export restrictions and taxes;
- domestic and international security, including potential terrorist activities; and
- weather conditions, natural and anthropogenic disasters.

Prices for oil products declined significantly in late 2008 and early 2009. As international crude oil prices deteriorated, the natural gas prices we realised under our long-term contracts with European or other customers declined as well, resulting in a reduction in our export revenues in 2009. In spite of the recovery in our operational and financial results in 2010, such declines adversely affected, and any future decline may affect, our business, results of operations, cash flows, financial condition, our ability to finance planned capital expenditures and the value of the ADSs.

Additionally, the global economic crisis resulted in a significant decrease in natural gas consumption in Europe in 2009. This decrease in consumption coincided with a significant increase in gas liquefaction and regasification capacities and in LNG supply, which increased the imbalance between demand and supply in the European natural gas market. This drove spot prices for natural gas down, and the resulting unprecedented gap between the spot price and the prices determined by our long-term contracts led to a decline in sales under our long-term contracts. Furthermore, in August 2010, Edison S.p.A brought a claim against Promgas, a joint venture between OOO Gazprom Export and Eni, in which each party has an equal interest, in the ICC Court of Arbitration in Paris, seeking to review the contractual price of natural gas supplied by Promgas. The claim was settled through negotiations taking into account the changed market conditions. In December 2010 and July 2011, our customers RWE Transgas and E.ON Ruhrgas A.G., respectively, filed lawsuits against Gazprom Export to revise the prices in relation to long-term supply contracts. We are now in negotiations with RWE Transgas and E.ON Ruhrgas A.G. but no assurance can be given that our negotiations with these customers, or our other customers which can potentially claim revision of our long-term prices, will be successful and that possible court decisions will be in our favour. Any future such occurrences may adversely affect our business, results of operations, cash flows and financial condition.

The global prices for oil products also affect the prices that we receive for our sales of crude oil and refined products. For example, lower prices may reduce the amount of crude oil that we can produce economically or reduce the economic viability of crude oil development or processing projects planned or in development. We may reduce our planned capital expenditures if international crude oil or refined product prices fall below the price assumptions used in our estimates.

We are required to supply a significant portion of natural gas to customers in Russia at prices that are regulated by the Government.

We are, and are likely to remain for the foreseeable future, a natural monopoly with respect to activities in natural gas transportation through trunk pipelines in Russia. Wholesale prices of natural gas supplied to consumers in the Russian Federation are regulated by governmental authorities and are currently significantly lower than the prices we charge to western European off-takers, even after netting back customs duties and transit costs. Moreover, domestic wholesale natural gas prices for household consumers are currently lower than wholesale natural gas prices for industrial and commercial end users.

Resolution No. 1205 of the Government *On Improving State Regulation of Gas Prices*, dated December 31, 2010, provides for a phased increase of the regulated wholesale gas price in the transition period from 2011 through 2014 in order to achieve parity in terms of profitability with respect to supplies to the domestic market as compared to exports and also provides for the transitioning to a market pricing mechanism for all domestic gas consumers except households. See "Gazprom—Gas Marketing—Russia—Domestic market conditions." However, no assurance can be given that natural gas prices in Russia will continue to increase in keeping with expected growth rates as previously planned or that the Government will not revoke its plans for natural gas price increases and the transition to non-regulated prices. If the natural gas prices we charge to Russian customers do not increase as currently proposed, our future results of operations, cash flows and financial condition could be adversely affected.

Negative economic developments and conditions in the markets in which we operate can adversely affect our business and results of operations.

Our results of operations are significantly influenced by the general economic condition in the countries in which we operate. Despite recent recoveries, the economic situation in these markets has in various ways been adversely affected by weakening economic conditions and the turmoil in the global financial markets. In particular, some or all of the countries in these markets have experienced declining economic growth, reduced industrial production, increasing rates of unemployment as well as decreasing asset values which have not fully recovered to pre-crisis levels. Adverse economic developments of the kind described above have affected and may in the future affect financial condition of our customers. An economic slowdown in our key markets caused a reduction in demand for our natural gas and other products, and decrease in our production in 2009 as compared with 2008. In spite of a considerable recovery in demand and production during 2010 there is

still an uncertainty in respect of change in demand in the future which may have a material adverse effect on our business, financial condition, results of operations and adversely affect the price at which the ADSs are traded. Our long-term supply contracts with customers in Europe generally have "take-or-pay" provisions that provide for minimum annual volumes of natural gas. Customers who have failed to purchase the minimum amount stipulated in the contract are required to pay for a major portion of such amount. However, no assurance can be given that in a tough economic environment our customers will be able to fulfil these obligations in full.

Delayed, non-collectible and non-cash payments by our customers could adversely affect us.

The failure of a number of FSU customers to pay us for supplies of natural gas has from time to time resulted in substantial debts to us. As of December 31, 2010, accounts receivable due from customers in the FSU countries for sales of natural gas were approximately RR151 billion. See "Gazprom—Gas Marketing—The FSU—Debt settlement." Our cash flows could be further affected by the inability or limited ability of our customers, particularly those in Russia and the FSU countries, to pay for our natural gas. There can be no assurance that amounts owed to us by our customers will be paid in full or, if paid in full, that payment will be in cash. As is the case with many Russian companies, we have had to make use of and to accept various forms of non-cash settlement, including negotiable promissory notes, bonds, equity interests in natural gas companies and goods and services as payment for gas supplies. Non-cash settlement of transactions has had in the past, and may continue to have in the future, an adverse effect on our ability to fund operational or capital expenditures required to be made in cash and to make tax and other mandatory payments when due.

We bear a substantial tax burden.

We are subject to a broad range of taxes imposed at federal, regional and local levels and we are one of the largest sources of tax revenue to the federal authorities, as well as to the regional and local authorities in those regions and locations and localities in which we operate. Political pressure on federal, regional and local authorities aimed at addressing social and economic issues increases the risk that the resolution of these problems might include raising tax rates, which may result in an increase of our substantial tax burden.

In June 2011, the Russian Minister for Finance announced that the tax burden on the gas industry as a whole in Russia could increase by approximately RR150 billion, RR170 billion and RR185 billion respectively, for the years 2012, 2013 and 2014. If this increase takes place, our individual tax burden could also increase significantly.

The Government has exercised, and can be expected to continue to exercise, a strong influence over our operations.

The Russian Federation currently controls more than 50% of Gazprom's shares. See "Shareholding Structure of Gazprom." Nominees of the Russian Federation, including Mr. Miller, the Deputy Chairman of Gazprom's Board of Directors and Chairman of Gazprom's Management Committee, currently hold six of the 11 seats on Gazprom's Board of Directors. Mr. Zubkov, the current Chairman of Gazprom's Board of Directors, serves as the First Deputy Prime Minister of the Russian Federation. State authorities regulate the prices we charge for gas in the domestic market, the tariffs we charge for the transportation of third parties' gas through the UGSS and other matters affecting our business. Through its share ownership, representation on Gazprom's Board of Directors and role as the main regulator, the Government has a strong influence over our operations. The Government has previously required Russian companies, including us, to take certain actions, such as the undertaking of projects and the supply of goods and services to customers that may not be in the best interests of such companies or their investors. In particular, as conditions to our privatisation in 1992, the Government imposed an obligation on the Gazprom Group to provide an uninterrupted supply of gas to customers in the Russian Federation at government controlled prices and to create a statutory fund for social assets. From time to time, we negotiate to return certain of these assets to Governmental authorities and this process could continue in the future. Governmental economic and social policies affect our financial position, results of operations and cash flows. Please see the second paragraph of the respective audit opinions, issued by ZAO PricewaterhouseCoopers Audit, for each of the financial years ended December 31, 2010, 2009 and 2008 included on pages F-31, F-99 and F-169, respectively.

We may not be successful in our efforts to integrate recent or future acquisitions and we may be unable to finance acquisitions we believe could be beneficial to our existing operations on terms desirable to us or at all.

We have acquired, and may continue to acquire in the future, businesses and legal entities that are engaged in activities that are different from our core business. For example, we acquired control over OGK-2, OGK-6 and TKG-1 in the period from 2008 to 2010. See "Gazprom—Electric and heat energy generation and sales." The integration of newly-acquired businesses may be difficult for a variety of other reasons as well, such as differing culture or management styles, poor records or internal controls and difficulty in establishing immediate control over cash flows. As a result, the need to integrate recently acquired assets or any potential future acquisitions poses risks to our existing operations, including:

- additional demands placed on our senior management, who are also responsible for managing our existing operations;
- increased overall operating complexity of our business; and
- additional cash expenditures or debt service costs.

Acquisitions of businesses and assets also create the need to attract and retain a greater number of qualified management and other personnel, for which there is significant competition in Russia. Any failure to successfully integrate past or future acquisitions could adversely affect our business, financial condition and results of operations. Moreover, even if we were successful in integrating newly acquired assets and acquiring additional assets, expected synergies and cost savings may not materialise, resulting in lower than expected profit margins.

We also may be unable to generate and raise sufficient funds to finance future acquisitions that may be beneficial to our future operations or to do so at a reasonable cost. See "—Debt financing for our anticipated capital expenditures may not be available on desirable terms or at all." Lack of sufficient funds in the future may require us to delay or abandon some of our anticipated acquisitions.

State authorities may reorganise our business to increase competition in the gas sector.

We are a natural monopoly in the transportation of natural gas. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Regulating the activities of natural monopolies." In certain jurisdictions, monopolies are subject to scrutiny by governments and restrictions. For instance, the European Union implements a policy aimed at the liberalisation of the European Union energy markets that provides for the vertical disintegration of energy companies. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Regulation Abroad—Gas Directive." Furthermore, in Russia, the Government recently reformed the power industry, which resulted in the reorganisation of another natural monopoly, OAO "RAO UES".

Although Government officials and senior members of our management have stated that the reorganisation or division of Gazprom is not currently planned, and moreover the Gas Supply Law provides that the transfer of ownership to the UGSS may only be effected by federal law, there are no assurances that we are protected against the risks of a state-led reorganisation into several smaller and less powerful production and transportation companies, or that certain of our operations may be re-allocated to other entities.

Our licences may be suspended, amended, or terminated prior to the end of their terms, and we may not be able to obtain or maintain various permits and authorisations.

The licensing regime in Russia for the exploration, development and production of natural gas, gas condensates and crude oil is governed primarily by the Federal Law "On Subsoil" No. 2395-1 dated January 21, 1992, as amended (the "Subsoil Resources Law") and numerous regulations issued thereunder. We currently conduct our operations under multiple exploration and production licences. The production licences for our major natural gas and oil production fields extend to at least 2012, with some extending for a much longer

period. See Appendix A, "Certain Exploration and Production Information of the Gazprom Group—Licences." In accordance with current legislation, we plan to extend our licences that have a fixed term to the end of the economic life of the field to which such licence relates. Although historically we have been able to obtain such extensions, we may fail to do so in the future.

Most of our licences also provide that they may be terminated if we fail to comply with material licence requirements, do not make timely payments of levies and taxes for the use of the subsoil, systematically fail to provide information or fail to fulfil any licence requirements on production volumes and subsoil use. The Group has from time to time requested and received appropriate amendments to certain licences, but has not had any material licences revoked or suspended. There can be no assurances that the decisions of the Government regulators in the future will always be favourable to us. Decreases in demand as a result of the current economic slowdown among our principal customers could increase the likelihood that we will not be able to achieve the production targets required by our licences. If we fail to fulfil the specific terms of any of our licences or if we operate in the licence areas in a manner that violates Russian law, Government regulators may impose fines on us or suspend, amend or terminate our licences. Any suspension, amendment, or termination of our licences could have an adverse effect on our operations, financial position or the value of our assets.

We must make capital expenditures in order to replace diminishing production in our operating fields and maintain and develop our gas transportation system, and certain expenditures may be delayed as the demand for and price of natural gas decreases.

Over the next several years, we must make capital expenditures in order to develop our natural gas, gas condensate and crude oil production capabilities in line with demand, maintain our natural gas transportation system and offset declines in our main producing fields, particularly our Urengoykoye and Yamburgskoye fields. In order to achieve such goals, we plan to further develop satellite fields in western Siberia and fields in new gas producing regions (such as the Yamal Peninsula, the shelf of the Arctic seas, eastern Siberia and the Far East), and increase Gazprom Neft's oil production levels, which may require increased exploration and development activity. Considerable sums of money are required in order to maintain and develop the UGSS, which we own and operate and which is responsible for the transportation, storage and delivery of substantially all natural gas supplies in Russia (except for supplies to the Norilsk, Yakutsk and Sakhalin regions). The UGSS has an extensive network of pipelines and compressor installations that has been largely developed over more than 40 years. Most of the pipeline is over 10 years old, and some portions of the pipeline are over 30 years old. A significant part of the pipeline is protected by electrochemical processes of limited duration and effectiveness. In addition, large segments of the network are located in regions with harsh climates, where construction, maintenance and refurbishment are difficult and costly. There can be no assurance that we will be able to finance the capital requirements needed to maintain our production and the operation of the UGSS at a reasonable cost or at full capacity. See "Gazprom—Investment Programme".

If the demand for and price of natural gas fall below our expectations, we may have to adjust the timeframe of and our projected investments in these projects, the implementation of which would lead to excessive gas production and transportation capacities. It is possible, however, that we will be unsuccessful in meeting our long-term production targets due to decreases in our capital expenditures or otherwise. In such circumstance, our ability to meet our contractual export commitments and domestic supply obligations could be adversely affected. Decreases in the Investment Programme may increase the risk that certain of our licences will be suspended, amended or terminated. See "—Our licences may be suspended, amended or terminated prior to the end of their terms, and we may not be able to obtain or maintain various permits and authorisations."

Debt financing for our anticipated capital expenditures may not be available on desirable terms or at all.

We expect to fund our capital expenditures through internal sources and external financing. There can be no assurance, however, that we will be able to generate and raise sufficient funds to meet such capital requirements in the future or to do so at a reasonable cost. We depend on regular access to debt markets to meet a significant portion of our financing requirements. In 2009, our cash flow generated from our natural gas, crude oil and refined product sales decreased because of the then dramatic fall in crude oil prices, the consequential decline in natural gas prices and the decreased demand for all such products as a result of the global financial crisis. Additionally, in late 2008 through early 2009 the global bank and capital markets experienced a significant disruption that was characterised by severe reductions in liquidity, greater volatility, general

widening of spreads, and, in some cases, lack of price transparency in money and capital markets interest rates. As a result, many lenders reduced or ceased providing funding to borrowers, particularly in the emerging markets, and there was a general increase in the cost of borrowing for private-sector borrowers, including Gazprom. These increased economic risks resulted in the decision made by Moody's Investor Service Ltd. to downgrade our credit rating in the second quarter of 2009 from A3 to Baa1 (stable outlook), which reflects an assessment by Moody's Investor Service Ltd. that there is an increased credit risk that we may default on our obligations. Our credit ratings by Standard & Poor's International Services Inc. and Fitch Ratings Limited each remain at BBB with a stable outlook from Standard & Poor's International Services Inc. and a positive outlook from Fitch Ratings Limited. The worsening of this market disruption or downgrades in our credit rating may adversely impact our ability to borrow in the bank or capital markets and may further increase the cost of such borrowing. Lack of sufficient funds in the future may require us to delay or abandon some of our anticipated projects.

We face numerous operational risks in our gas and crude oil exploration, production and transportation activities, which may result in losses and additional expenditures and which may not be covered by insurance.

We conduct our exploration activities in various geographical regions, including western and eastern Siberia, the Far East and the Barents Sea, which are characterised by their remoteness from population centres, challenging environmental conditions and high costs. For these reasons, the cost of drilling, completing and operating wells is often uncertain. As a result, we may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. In addition, our overall drilling activity or drilling activity in particular project areas may be unsuccessful in that we may not find commercially productive reservoirs.

Our gas and crude oil production and transportation operations may be adversely affected by many factors, including the breakdown or failure of equipment or processes, labour disputes, natural disasters and terrorist attacks or sabotage to our extensive pipeline network. Although there have been no significant delays or curtailments of the supply of natural gas to our customers due to these factors recently, no assurance can be given that such delays or curtailments will not occur in the future due to the stress and corrosion of pipelines, defective construction of compressor stations or insufficient maintenance or refurbishment of the network.

Our insurance covers Gazprom's and its main subsidiaries' operational risks, but we do not have full insurance coverage for all of our activities. See "Gazprom—Insurance." Therefore, in a number of cases, we would have to cover financial losses from the above-mentioned or other factors out of our own cash flow.

We encounter competition in our largest business, natural gas sales, from alternative fuel sources and other natural gas producers and suppliers.

We face varying degrees of competition in each of our major natural gas export markets from providers of alternative fuels, such as crude oil, oil products and coal. No assurance can be given that we will be able to compete effectively with such providers of alternative fuels, as well as with those who produce natural gas from unconventional sources.

We encounter competition in Europe from other natural gas suppliers (especially from Algeria, Norway and The Netherlands), which could affect the prices and volumes of our sales of natural gas to Europe. A significant decline in global prices for liquid hydrocarbons and the economic slowdown in Europe resulted in downward pressure on our natural gas prices and on demand. The eventual emergence of new large suppliers of natural gas in Europe could also result in an oversupply and lower prices. In 2009, decline in demand for natural gas and increase in supply of LNG in the European market resulted in an oversupply of natural gas and significant decrease of the price in the spot market. Some of our customers approached us with a request to amend our long-term contracts to partially introduce lower spot prices. Currently, according to the Federal Law "On gas export" No. 117-FZ dated July 18, 2006 (the "Gas Export Law"), as the owner of the UGSS, we have the exclusive right to export natural gas or liquefied natural gas produced in Russia.

In addition, the western European gas market has undergone significant structural change as a result of the EU Gas Directive adopted in June 2003 (the "Gas Directive"). The Gas Directive has brought about significant liberalisation of the EU gas market by introducing greater competition into the market in order to reduce gas prices for the end-user. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Regulation Abroad—Gas Directive." As a result of the liberalisation of the EU natural gas market, short-term contracts and spot transactions involving natural gas have become more popular. The availability of spot transactions may reduce our sales under long-term contracts if such transactions are available at favourable pricing. The continued emergence of a spot market may also make it more difficult for us to negotiate long-term supply contracts under which we currently export a majority of our natural gas and may decrease the period between potential pricing revisions under new long-term contracts, which are currently set at three years for most contracts.

In August 2009, the Third Energy Package was adopted and took effect in the European Union. This package envisages separating production facilities (extractive assets for natural gas and generating assets for electricity) from transportation networks (gas pipelines and high-voltage electricity transmission grids) within the EU. These new requirements may significantly affect our operations in the European market, including the implementation of new gas infrastructure projects.

As a result, the European market has undergone a significant liberalisation process in recent years and the relevant authorities in the member states of the EU have rigorously promoted greater competition between the major players in the European energy market. On September 27, 2011, the EU commenced unannounced inspections at the premises of our affiliates in Central and Eastern Europe, as well as on some of our customers in the EU. The inspections were directed by the European Commission due to alleged breaches of EU antitrust rules by us and/or our affiliates involved in the purchase, transmission and sale of gas. The mere fact of these inspections does not imply any recognition of an antitrust offence or an accusation of the same. Moreover, we have always supported competition in the gas market and duly complied with all international laws and regulations in countries where we operate. Terms and conditions of our contractual relationship with customers are determined by international legal obligations, commercial interests and the relevant market conditions. We have always been open to a dialogue with the concerned authorities of the relevant EU member states, as well as, the European Commission. However, there can be no assurance that the conclusions of the European Commission as a result of the aforementioned investigations or, as a result of similar investigations which can take place in the future, will be favourable for us. As of the date of this Prospectus, it is impossible to assess the potential negative impact of these investigations on our operations in Europe or our financial position as a whole.

Russia has signed the Energy Charter Treaty, an international treaty for establishing and improving the legal framework for corporate international cooperation in energy matters, but the State Duma has not yet ratified the Energy Charter Treaty. We believe that ratification of the Energy Charter Treaty would result in greater access by third parties to our pipelines, including for the transportation of natural gas from central Asia to European markets. Accordingly, ratification of the Energy Charter Treaty in its current form by the State Duma could also lead to substantially increased competition and affect our long-term supply contracts with European customers. However, high ranking Russian state officials have claimed in recent years that the Energy Charter Treaty in its current form is not in the best interests of Russia. In August 2009, a formal notice was sent to the depositary of the Energy Charter Treaty informing that Russia does not intend to accede to the Energy Charter Treaty.

Following our price dispute with Ukraine in early 2009, certain European countries have intensified their efforts to diversify their energy sources. In July 2009, Austria, Bulgaria, Hungary, Romania and Turkey entered into an intergovernmental agreement providing a legal framework for the Nabucco pipeline, which is intended to supply European countries with natural gas supplies from the Caspian Sea and Middle East. The stated intention of the agreement is to reduce European reliance on Russian gas. While the project remains in preliminary stages, construction of the Nabucco pipeline as currently proposed could potentially increase competition with Gazprom's South Stream project targeted to similar customers in central and eastern Europe, and our future results of operations, cash flows and financial condition could be adversely affected.

We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas.

We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas. Although our strategy includes seeking to diversify our export routes, we are currently dependent on pipelines in Ukraine and Belarus to deliver a significant portion of the natural gas we sell to customers in Europe, and we may not be able to prevent eventual disruptions in our transit of natural gas through Ukraine and Belarus. At the same time, Ukraine and Belarus are dependent on us to meet their domestic requirements for natural gas. Although this interdependence is taken into account in negotiations over gas deliveries and gas transit, we currently have no control over the pipeline systems in Ukraine.

In the past, FSU countries purchased our natural gas at fixed prices that represented a significant discount to the prices we realised under our European contracts. Since the late 1990s, we have been working to gradually align the terms in our export contracts with the FSU countries to the terms in our export contracts with European customers. However, our customers in the FSU countries have occasionally objected to the extension of our contracts on such new terms or even to fully pay for gas supplies. There have been instances in which our gas deliveries intended for our European customers were diverted as a result of our disputes with the FSU transit countries. For instance, in January 2009, in connection with a price dispute, Ukraine closed all major export pipelines going through Ukraine. This resulted in significant supply disruptions to several of our European customers for approximately two weeks. Over the period of the dispute we lost approximately U.S.\$100 million per day in revenue, although a substantial part of these losses was recovered due to our customers' refilling of UGSFs. We also experienced a price dispute with Belarus in June 2010 that led to a temporary suspension of our gas supplies to Belarus, although deliveries to our European customers were not disrupted during this time. See "Gazprom—Transport—Existing routes of gas export and participation in foreign gas distribution networks—Natural gas transit through Ukraine and Belarus." Even though we have settled these disputes with Ukraine and Belarus, any future disputes with these countries could potentially lead to a disruption of our exports to Europe through pipelines crossing these countries.

In addition to disruptions that may be caused by commercial disputes, our transit of natural gas through pipelines in Ukraine may also be disrupted if Ukraine is unable to properly maintain their pipelines due to a lack of financial resources. Political unrest in Ukraine may also lead to a disruption.

To reduce transit risks, we expanded our gas export capacity and diversified our gas export routes by completing the Yamal-Europe pipeline and the Blue Stream pipeline, and we continue to invest further in other export-oriented projects, such as the Nord Stream project under the Baltic Sea, the design of the South Stream project and the development of our capacity to produce and sell LNG. We are also currently expanding our access to underground storage facilities in Europe.

A major disruption in the Transneft system and continuing increases in Transneft's fees could have a material adverse effect on our business, financial condition and results of operations.

The trunk pipelines for transportation of crude oil and petroleum products in Russia are controlled by OAO AK Transneft ("Transneft"), a state-controlled monopoly. Transneft has generally avoided serious disruptions in the transport of crude oil and, to date, we have not suffered significant losses arising from the failure of the pipeline system. Much of the Transneft-operated pipeline system is relatively old and located in regions with harsh climates. As a result, the Transneft-operated system may experience outages or capacity constraints during required maintenance periods and it is likely we may experience delays in or be prevented from transporting crude oil. These delays, outages or capacity constraints could materially adversely affect our business, financial condition and results of operations.

We, along with all other Russian oil producers, must pay transportation fees to Transneft in order to transport crude oil through the Transneft network. The FTS is responsible for setting Transneft's fees, which have risen in recent years and may continue to rise. Failure to pay these fees could result in the termination or temporary suspension of Gazprom Neft's access to the Transneft network, which would adversely affect Gazprom Neft's operating results and financial condition. In addition, increases in the fees for the use of

Transneft's network raise our costs for the transportation of crude oil and petroleum products, adversely affecting our operating results and financial condition.

As an energy company we may incur material costs to comply with, or as a result of, environmental, health, and safety laws and regulations.

Our operations, which are often potentially hazardous, are subject to the risk of liability arising from environmental damage or pollution and the cost of any associated remedial work in relation thereto. Environmental laws regulate, among other things, the composition of emissions into the atmosphere, wastewater discharges and discharges to the sea, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. As we are a production company, environmental liability risks are inherent in our operations. We have an established environmental policy and monitor our operations in an effort to meet applicable environmental standards. We have made provisions in our consolidated financial statements prepared in accordance with IFRS for environmental liabilities where it is probable that an obligation exists and the cost related to such obligation could be reasonably estimated. Such provisions have been made in accordance with what we believe is a reasonable and prudent policy that takes into account payments made in prior years, among other factors. Currently, Russian federal, regional and local authorities occasionally enforce existing laws and regulations more strictly than they have done previously and are imposing stricter environmental standards, or higher levels of fines and penalties for violations. Accordingly, we have strengthened our corporate policy with respect to environmental regulations, but we are unable to estimate at this time the future financial impact of our environmental obligations. See "Gazprom—Health, Safety and Environment."

There are numerous uncertainties inherent in estimating our reserves of natural gas, gas condensate and crude oil.

Our reserves of natural gas, gas condensate and crude oil are evaluated annually in accordance with the PRMS Standards. An evaluation of proved and probable natural gas reserves naturally involves multiple uncertainties. The reserves data included in this Prospectus represent only estimates and should not be construed as exact quantities. The accuracy of any reserves evaluation depends on the quality of available information and engineering and geological interpretation. Based on the results of drilling, testing and production after the audit date, reserves may be significantly restated upwards or downwards. Changes in the price of natural gas, gas condensate or crude oil may also affect our proved and probable reserves estimates, as well as estimates of our future net revenues and present worth, because the reserves are evaluated, and the future net revenues and present worth are estimated, based on prices and costs as of the audit date. For the foregoing reasons, undue reliance should not be placed on the forward-looking statements in this Prospectus with respect to our estimated reserves.

In addition, certain evaluations were prepared in accordance with the Russian reserves system, which differs in certain material respects from PRMS Standards and standards applied by the SEC, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Classification of Reserves." PRMS Standards also differ in certain material respects from SEC Standards. The amount of estimated proved natural gas, gas condensate and crude oil reserves reported under SEC Standards could potentially be lower than those reported under PRMS Standards. An eventual decrease in the amount of natural gas, gas condensate and crude oil reserves reported by us could, if material, affect certain financial data reported by us in our consolidated financial statements in future periods.

Violations of existing international or U.S. sanctions could subject us to penalties that could have an adverse effect on us.

We believe we are in compliance with international sanctions imposed in accordance with resolutions of the UN Security Council, Russian law, U.S. law and laws of jurisdictions where we operate.

International and U.S. sanctions have been imposed on companies engaging in certain types of transactions with specified countries, including Iran and Cuba, or companies in those countries.

Since 1997, we have been involved, in partnership with Total S.A. ("Total") and Petronas, in a project to develop the South Pars field, located in the Iranian segment of the Persian Gulf. See "Gazprom—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Iran." In May 1998, the U.S. Department of State issued a determination that the investment made by our partners and us in Iran's South Pars field constituted activity covered by the Iran and Libya Sanctions Act of 1996 (the "Sanctions Act"), and, at the same time, communicated its decision to waive sanctions under Section 9(c) of the Sanctions Act with respect to such investment. The waiver applies to our activities in the South Pars field only, and not to any other activities we may conduct in Iran. On July 1, 2010, the U.S. Senate enacted the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISAD) which expands existing sanctions against companies operating in Iran.

In July 2008, we signed a memorandum of understanding with the National Iranian Oil Company (NIOC). Among other things, the memorandum provided for cooperation in other countries. The memorandum expired in July 2010. We did not assess or implement any projects contemplated by this memorandum.

In November 2009, our subsidiary, Gazprom Neft, and the NIOC entered into a memorandum of understanding which provides for potential joint exploration of fields in Iran pursuant to a service contract under which our investments may exceed U.S.\$20 million. See "Gazprom—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Iran." We believe that the memorandum is, in substance, only a letter of intent, which is not binding upon either of the parties and does not provide for any active or inactive business operations in Iran. As of the date of this Prospectus, Gazprom Neft has not taken any decision with respect to participation in any projects or performed any work in relation to implementation of any projects contemplated by the memorandum.

In October 2010, Gazprom Neft entered into a framework agreement with Petronas relating to the assignment of its 30% participation interest in a production sharing agreement in respect of four deep-water blocks on the shelf of Cuba. The agreement is subject to the satisfaction of conditions precedent, and we are uncertain when these will be satisfied and the agreement will become fully effective. See "Gazprom—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region."

If we violate existing international or U.S. sanctions, penalties could include a prohibition or limitation on our ability to obtain goods and services on the international market or to access the U.S. or international capital markets. We believe that we are not currently involved in any transactions in Iran, Cuba or other countries that could result in sanctions against us or for which we have not received a waiver of such sanctions. However, no assurance can be given that new sanctions may not be imposed in the future.

Our efforts to develop our business outside the Russian Federation may not yield the expected results.

One of the key pillars of our business strategy is to expand the geographic reach of our business outside of the Russian Federation. We are currently implementing hydrocarbon exploration and production projects in South America, South East Asia, Africa and the Middle East and are considering entering the gas markets of North America and enhancing our presence in the Asia-Pacific region. As of December 31, 2010, we had 13 registered representative offices abroad, including in China, India, Algeria, Iran and Latin America. We are also implementing a number of priority market development strategy efforts in our traditional and new overseas markets. When entering a new region, we factor in local business peculiarities and specific risks while at the project validation stage itself. In addition, our foreign representative offices interact with governmental authorities, companies and other organisations in the relevant countries and regions. Despite our efforts, the development of our business outside the Russian Federation may not necessarily yield the expected results owing to economic, political or other factors relating to our overseas operations.

Risks Relating to the Russian Federation

We are a Russian company and substantially all of our fixed assets are located in, and a significant portion of our revenues are derived from, Russia. There are certain risks associated with an investment in Russia.

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt our business, as well as cause the market price at which the ADSs are traded to suffer.

Generally, investing in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with investing in, emerging markets. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity and debt markets of all emerging market countries as investors move their money to more stable, developed markets. The Russian markets were highly volatile during the global financial crisis beginning in 2008. Such volatility caused market regulators to temporarily suspend trading on the MICEX and RTS stock exchanges multiple times. The MICEX and RTS stock exchanges experienced significant overall declines during the financial crisis beginning in 2008. From the second half of 2009 through 2011, the indices recovered but they have mainly declined since April 2011. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. See also "—Economic Risks—Economic instability in Russia could adversely affect our business." Financial turmoil in any emerging market country could adversely affect our business, as well as result in a decrease in the price at which the ADSs are traded.

Political Risks

Political and governmental instability or conflict could adversely affect the value of investments in Russia, including the ADSs.

Since 1991, Russia has changed from a one-party state with a centrally-planned economy to a federal republic with democratic institutions and a market-oriented economy. However, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Government, including the prime minister and the other heads of federal ministries, has at times been unstable.

Future changes in the Government, State Duma or the presidency, major policy shifts or eventual lack of consensus between the president, the Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments in Russia generally and affect the liquidity and trading price of the ADSs in particular and our prospects could be harmed if there is further governmental instability or if the course of reform policies does not continue.

Emerging markets such as Russia are also subject to heightened volatility based on economic, military and political conflicts. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines in the Russian stock exchanges. The emergence or escalation of any tensions in Russia or neighbouring regions could negatively affect the economy of Russia and other countries that may be involved. Such tensions or conflicts may lead to reduced liquidity, trading volatility and significant reductions in the price of listed Russian securities, with a resulting negative effect on the liquidity, stability and trading price of the ADSs and our ability to raise debt or equity capital in the international capital markets.

Conflict between federal and regional authorities and other domestic political conflicts could create an uncertain operating environment that may hinder our long-term planning ability and could adversely affect the value of investments in Russia.

Russia is currently a federation of various sub-federal political units. Some of these political units exercise considerable autonomy over their internal affairs pursuant to agreements with the federal authorities. In practice, the division of authority between federal and regional authorities remains uncertain and contested. This uncertainty could hinder our long-term planning efforts and may create uncertainties in our operating environment, any of which may prevent us from effectively and efficiently carrying out our business strategy.

For example, to achieve consistency in the regulation of natural gas supplies throughout Russia, the federal authorities have assumed responsibility for the development and implementation of state policy with respect to the supply of natural gas and the industrial and environmental safety of such supplies in Russia. However, regional and local authorities have a significant degree of autonomy in exercising their rights over the use of land and natural resources (including natural gas). Accordingly, the relationship between the relevant federal, regional and local authorities as well as between us and such authorities can have a significant impact on the conditions under which we can operate in any particular region. See also "—Risks Relating to the Russian Legal System and Russian Legislation—The Russian legal system and Russian legislation are at a developmental stage and this may create an uncertain environment for investment and for business activity."

In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict. The conflict in Chechnya, for example, brought normal economic activity within Chechnya to a halt for a period of time and disrupted the economies of neighbouring regions. Violence and attacks relating to this conflict also spread to other parts of Russia and resulted in terrorist attacks in Moscow, including the attack by a suicide bomber on January 24, 2011 at Russia's busiest airport which killed more than 35 people and injured over 150 others. In the future, such tensions, military conflict or terrorist activities could have significant political consequences, including the imposition of a state of emergency in some or all of Russia or heightened security measures, which could disrupt normal economic activity in Russia and materially adversely affect our business and the value of the ADSs.

Economic Risks

Economic instability in Russia could adversely affect our business.

The Russian economy has been subject to abrupt downturns. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Government defaulted on its ruble-denominated securities, the CBR stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation; a dramatic decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of August 17, 1998, which further impaired the ability of the banking sector to act as a reliable and consistent source of liquidity to Russian companies, and resulted in the loss of bank deposits in some cases. In 2004, several Russian banks experienced a sharp reduction in liquidity, and the licences of certain of them were withdrawn.

As Russia produces and exports large quantities of crude oil, natural gas and other commodities, the Russian economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in the first half of 2008 and experienced significant decreases during the global financial crisis beginning in the second half of 2008. Russian banks, and the Russian economy generally, have also been adversely affected by the global financial crisis. During the crisis, the Russian economy has been characterised by extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in gross domestic product. In late 2008, during the initial stages of the economic recession, the Government announced more than RR 1 trillion in emergency financial assistance in order to ease taxes, refinance foreign debt and encourage lending. These measures have had only but a limited impact and the Russian economy has not fully recovered from the economic crisis as yet. There can be no assurance that the measures adopted by the Government to ameliorate the effect of the financial and economic crisis will result in a sustained recovery of the Russian economy. There can be no assurance that this economic

crisis, or a future economic crisis, will not have a negative effect on investors' confidence in the Russian Federation's markets, economy or ability to raise capital in the international debt markets, any of which, in turn, could have a material adverse effect on the Russian Federation's economy. In addition, further declines in the price of crude oil, natural gas or other commodities could further disrupt the Russian economy and adversely affect our operating results, financial condition price at which the ADSs are traded.

We face inflation and foreign exchange rate risks that could adversely affect our results of operations.

For the three month periods ended March 31, 2011 and 2010 and for the years ended December 31, 2010, 2009 and 2008, respectively, 61%, 58%, 60% 63% and 69%, of our gross sales (including excise tax and customs duties, net of VAT), were denominated in U.S. dollars or euro, while most of our costs were denominated in rubles. The relative movement of inflation and exchange rates therefore significantly affects our results of operations. In particular, our operating margins are generally adversely affected by appreciation of the ruble against the U.S. dollar or euro, because this will generally cause our costs to increase relative to our sales revenues. The pressure on operating margins arising from ruble appreciation in real terms is intensified by the relatively high inflation rate in Russia, which can further increase our costs, though this can be offset to some extent by domestic price increases as determined by the Government. In addition, the relatively high inflation rates in Russia reduce the value of our ruble-denominated cash assets, including ruble deposits, domestic debt instruments and accounts receivable. For the years 2010 and 2009, according to the Federal State Statistics Service (source: www.gks.ru), inflation in Russia was 8.8% and 8.8%, respectively. According to the CBR, the nominal devaluation of the ruble against the U.S. dollar in 2010 and 2009 was 3.0% and 6.0%, respectively, while in real terms the ruble rose 4.0% and depreciated by 0.4% against the U.S. dollar in 2010 and 2009, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors Affecting our Results of Operations—Impact of inflation and changes in exchange rates on export sales and operating margins."

While the ruble's decline in real terms against the U.S. dollar or euro normally has a positive effect on our profit margin as it reduces our costs in real terms in relation to our sales revenue, however, it also increases the ruble equivalent of our debt denominated in foreign currencies and the ruble equivalent of the cost of such debt and could hamper its refinancing.

We are required to repatriate our export sales revenues, which could adversely affect our business. In addition, if we are required to convert any portion of our export sales into rubles in the future, it may also adversely affect our business.

We are subject to the requirement of mandatory repatriation of our export sales revenues. This may adversely affect our business, results of operations and the trading price of the ADSs.

Currently, the CBR does not require any portion of our proceeds from export sales to be converted into rubles. In the past, however, we have been required to convert into rubles a percentage of our proceeds from export sales, and at times this percentage has been as high as 75%. There can be no assurance that the CBR will not require us to convert into rubles a percentage of our export sales in the future.

Russia's physical infrastructure is in poor condition, which could disrupt normal business activity.

Russia's physical infrastructure largely dates back to the Soviet period and in certain respects has not been adequately maintained and developed as a result of a lack of funding. In some areas the rail and road networks, power generation and transmission, communication systems and building stock are particularly affected. Road conditions throughout areas of Russia are poor, with many roads not meeting minimum requirements for usability and safety. Breakdowns and failures of any part of Russia's physical infrastructure may disrupt our normal business activity.

In order to enhance the prospects of infrastructure improvement, the Government may pursue plans to reorganise the nation's rail, electricity and telephone systems. These reorganisations may result in increased charges and tariffs and may not result in the anticipated capital investment that is needed to repair, maintain and

improve these systems. Significant increases in charges and tariffs, or further deterioration of Russia's physical infrastructure, may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations, any or all of which could have a material adverse effect on our business and the trading price of the ADSs.

Social Risks

Social instability caused by weakening economic conditions and turmoil in the financial markets in Russia could increase support for renewed centralised authority, nationalism or violence and thus materially adversely affect our ability to conduct our business effectively.

The weakening economic conditions and turmoil in the financial markets in Russia may result in high unemployment or the failure of state and private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the increasing cost of living. These conditions have already led to a certain amount of labour and social unrest that may continue or escalate in the future. Such labour and social unrest may have widespread political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, including restrictions on foreign involvement in the economy of Russia, and increased tension between the Government and its people. Any of these consequences could restrict our operations and lead to a loss of revenue, materially adversely affecting us.

Risks Relating to the Russian Legal System and Russian Legislation

The Russian legal system and Russian legislation are at a developmental stage and this may create an uncertain environment for investment and for business activity.

Russia is still developing the legal framework required by a market economy. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the Constitution of the Russian Federation, by the Civil Code of the Russian Federation (the "Civil Code"), by other federal laws and by decrees, orders and regulations issued by the President, the Government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap or contradict one another. Several fundamental Russian laws have only become effective within the past five to 10 years. The recent nature of much Russian legislation and the rapid evolution of the Russian legal system impact the enforceability of laws and can result in ambiguities, inconsistencies in legal interpretations and other anomalies. In addition, Russian legislation sometimes leaves substantial gaps in the regulatory infrastructure. Among the possible risks of the current Russian legal system are:

- inconsistencies among (1) federal laws, (2) decrees, orders and regulations issued by the president, the Government, federal ministries and regulatory authorities and (3) regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- limited court personnel with the ability to interpret new principles of Russian legislation, particularly business and corporate law;
- gaps in the regulatory structure due to delay in legislation or absence of implementing legislation;
- a high degree of discretion on the part of governmental authorities; and
- the inadequacy of bankruptcy procedures and certain violations in bankruptcy proceedings.

All of these weaknesses could affect our ability to enforce our rights under contracts, or to defend ourselves against claims by others.

The difficulty of enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions could prevent us or investors from obtaining effective redress in court proceedings.

The independence of the judicial system and its immunity from economic and political influences in Russia is also developing. The court system is understaffed. Russia is a civil law jurisdiction and, as such, judicial precedents generally have no binding effect on subsequent decisions. Additionally, court claims are often used in furtherance of personal aims different from the formal substance of the claims. We may be subject to such claims, and courts may render decisions with respect to those claims that are adverse to us and our investors.

State authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without due process or prior notice, and sometimes in a manner that is contrary to law. Unlawful or unilateral state actions could include the withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities could also use common defects in matters surrounding share issuances and registration as a basis for court claims and other demands to invalidate such issuances and registrations and/or to void transactions, often to further interests different from the formal substance of the claims. Such state action, if directed at us, could have a material adverse effect on our business, and on the trading price of the ADSs.

There are also legal uncertainties relating to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that these protections may not be enforced in the event of an attempted nationalisation, or in the event our business is reorganised. Our failure to receive what we believe to be adequate compensation in the event of the nationalisation of any of our entities, their assets or portions thereof, or their break-up into separate companies, could have a material adverse effect on our operations and revenues, and on the trading price of the ADSs.

The rights of our shareholders, the public reporting requirements and the Russian accounting regulations to which we are subject differ significantly from comparable listed companies in other jurisdictions.

Our corporate affairs are governed by Russian laws, our Charter and internal regulations adopted pursuant to our Charter. The rights of shareholders and the responsibilities of members of Gazprom's Board of Directors and Management Committee under Russian law are different from, and may be subject to certain requirements not generally applicable to, corporations organised in the United States, the United Kingdom or other jurisdictions. See "Management of Gazprom—Description of Gazprom's Management."

We are subject to Russian law, which requires us to make certain periodic public disclosures. For instance, we are required to publish our annual unconsolidated financial statements in accordance with Russian Accounting Regulations, together with an independent auditor's report. In addition, since 1998, the Government has required us (along with a number of other Russian companies that are natural monopolies) to produce financial statements prepared in accordance with IFRS, which we have done since 1996. The Gazprom Group consists of a large number of companies with a wide geographical range of operations. A majority of the companies in the Gazprom Group are governed by Russian law, including Russian accounting regulations. Due to the foregoing factors, we believe that it may take us more time than many western European companies to prepare and publish our financial reports in accordance with IFRS.

In accordance with Russian legislation, we are obliged to file quarterly reports on the activities of Gazprom to the Federal Financial Markets Service within 45 days of the end of the relevant quarter. Such reports include certain information about us, our management, subsidiaries, affiliates, litigation, selected financial and business information but do not contain all of the information contained in our IFRS consolidated financial statements. We have regularly published such reports since the fourth quarter of 1998 and generally comply with the reporting requirements.

In addition, Russian law requires certain disclosures be made by open joint stock companies, such as the disclosure of annual reports, any material facts affecting the financial condition and the business of the relevant company, certain board of directors' resolutions and lists of affiliated companies. We developed and adopted a corporate governance code for Gazprom at our General Meeting of Shareholders in June 2002. Nonetheless, despite these requirements and initiatives, there is less publicly available information about us than there is available for comparable listed companies in, for example, the United States or the United Kingdom.

Corporate governance standards in Russia are not of the same standard as those in Western Europe and the United States.

We are not required to comply with the UK Corporate Governance Code. Accordingly, there are fewer protections for investors than would otherwise be the case were we to comply with the UK Corporate Governance Code or similar standards of other European Union member states or the United States. Corporate governance standards in Russia are not of the same standard as those in Western Europe and the United States and may provide our shareholders with less protection than corporate governance requirements in Western Europe or the United States.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

Russian legislation generally provides that shareholders in a Russian joint stock company or members in a Russian limited liability company are not liable for the obligations of the joint stock company or limited liability company and bear only the risk of loss of their investment. This may not be the case, however, when one company (the "effective parent") is capable of making decisions for another company (the "effective subsidiary"). Under certain circumstances, the effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out such decisions. In addition, the effective parent is secondarily liable for the effective subsidiary's debts if the effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. Accordingly, in our position as the effective parent of the subsidiaries in which we own more than 50% of the charter capital, we could be liable for their debts. As of March 31, 2011, this potential liability amounts to approximately RR405 billion and this liability could have an adverse effect on us.

Some transactions conducted by us involving interested parties as defined under Russian law require the approval of disinterested directors or disinterested shareholders and our failure to obtain such approvals could have an adverse effect on us.

Russian law requires a company that enters into transactions that are referred to as "interested party transactions" to comply with special preliminary approval procedures by disinterested directors and/or shareholders. If the approval procedures are not followed, a transaction could be declared invalid upon a claim by the company or any of its shareholders subject to certain conditions provided by law. See "Certain Transactions.". The interested party could be held liable for damages.

Transactions between members of a consolidated corporate group may also, in certain circumstances, be considered to be interested party transactions, even when the companies involved are wholly owned by the parent company. Our Russian subsidiaries are subject to the same (or similar) legal requirements regarding the approval of interested party transactions. Although all interested party transactions of Gazprom are properly approved under Russian law and no such transactions entered into by us in the past have been invalidated, no assurance can be given that Gazprom would be able to follow the required approval procedures for interested party transactions in the future. There is a risk that owing to factors such as the vague nature of the relevant laws themselves, which can lead to divergent interpretations of such laws or negligence or willful wrongdoing on the part of any managers executing such transactions, that interested party transactions are not duly approved and this could adversely affect the Group's business, financial condition and results of operations.

Russian tax law and practice are not fully developed and are subject to frequent changes, which could have an adverse effect on us.

We are subject to a broad range of taxes and other compulsory payments and levies imposed at the federal, regional and local levels, including, but not limited to, excise duty, export duties, corporate income tax, VAT, mineral extraction tax, property tax, compulsory insurance payments and other taxes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors Affecting our Results of Operations—Our historically high tax burden."

Laws related to these taxes, such as the Russian Tax Code, have been in force for a short period of time relative to tax laws in more developed market economies. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in continual changes in the interpretation of the existing laws by the various authorities. Furthermore, the tax environment in Russia has been complicated by the fact that various authorities have often interpreted tax legislation inconsistently. Although Russia's tax climate and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. The possibility exists that the Government may impose arbitrary or onerous taxes, fines and penalties in the future, which could adversely affect our business. See "Risk Factors — We bear a substantial tax burden".

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Russian Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax regulations exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and leading to the inconsistent enforcement of these regulations in practice. The Russian tax system is impeded by the fact that at times it still relies heavily on the inconsistent judgements of local tax officials and fails to address many of the existing problems.

Taxpayers and the Russian tax authorities often interpret tax laws differently. During the past several years the tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments made by them as a result of tax audits of companies operating in various industries, including the oil and gas industry. In some instances, the Russian tax authorities have applied new interpretations of tax laws retroactively. It is therefore possible that our transactions and activities that have not been challenged in the past may be challenged in future.

In practice, taxpayers often have to resort to court proceedings to defend their positions against the tax authorities. In absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

Tax declarations together with related documentation are subject to review and investigation by a number of authorities, which are empowered by Russian law to impose fines and penalties on taxpayers. Generally, tax declarations remain open and subject to inspection by the tax authorities for a period of three years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a year has been reviewed by the tax authorities does not prevent any tax declarations relating to that year from further review by the tax authorities during the three-year limitation period. In particular, a tax authority higher than that which carried out the initial tax audit may re-audit the same period. Therefore, previous tax audits may not preclude subsequent claims relating to the audited period.

The Russian Tax Code provides for the possible extension of the three-year statute of limitations for liabilities for tax offences if the taxpayer has actively obstructed the performance of the tax audit and this has become an insurmountable obstacle for the tax audit. As the terms "obstructed" and "insurmountable obstacles" are not specifically defined in Russian tax law or any other branches of Russian law, the tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax audits with obstruction by the taxpayer and use that as a basis to seek tax adjustments and penalties

beyond the three-year period. Therefore, the statute of limitations is not entirely effective with respect to liability for tax in Russia. Such tax audit, if it concluded that we had significant tax underpayments relating to such tax periods, could have a material adverse effect on our business, financial condition and results of operations.

In its decision of July 26, 2001, the Constitutional Court of the Russian Federation introduced the concept of "a taxpayer acting in bad faith" without clearly stipulating the criteria for its application. Similarly, this concept is not defined in Russian tax law or other branches of Russian law. Nonetheless, in practice this concept has been used by the tax authorities to deny, for instance, the taxpayer's right to rely on the letter of the tax law. Based on the available practice the tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is at times unfavourable to taxpayers.

On October 12, 2006, the Plenum of the Supreme Arbitrazh Court of the Russian Federation issued Ruling No. 53 which introduced a new concept of the "unjustified tax benefit" defined mainly by reference to specific examples of such tax benefits (e.g., tax benefits obtained as a result of a transaction that has no reasonable business purpose) which may lead to the disallowance of their application. Based on available court practice it is apparent that the tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of this ruling was to combat the abuse of tax law, based on court cases relating to Ruling No. 53 that have been brought to courts to date, it can be concluded that the tax authorities have started applying the "unjustified tax benefit" concept in a broader sense than may have been initially intended by the Supreme Arbitrazh Court of the Russian Federation. Importantly, we are aware of cases where this concept has been applied by the tax authorities in order to disallow benefits granted by double tax treaties. To date, however, in many cases where this concept has been applied, the courts have ruled in favour of taxpayers, but there is no assurance that the courts will follow these precedents in the future.

For the year 2011, the transfer pricing legislation in Russia allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs), if the transaction price differs upwards or downwards from the market price by more than 20%. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties characterised by significant price fluctuations (i.e., if the price applied under these transactions differs from prices applied under similar transactions by more than 20% within a short period of time). Special transfer pricing rules apply to transactions with securities and derivatives. Transfer pricing rules as currently in effect are vaguely drafted, generally leaving wide scope for their interpretation by the tax authorities and courts in practice. Moreover, in the event that the tax authorities assess a transfer pricing adjustment, the transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse effect on our business, financial condition, results of operations and prospects.

Certain amendments that significantly revise existing transfer pricing legislation will come into force from January 1, 2012. The new transfer pricing rules contain the concept of "controlled" transactions and abolish the currently permitted 20% price deviation from the market level. In particular, the list of the "controlled" transactions under the amended transfer pricing legislation includes transactions with related parties and certain types of cross-border transactions. The new transfer pricing rules may have potential influence on pricing mechanism applied by Gazprom in "controlled" transactions, in particular, transactions with related parties (including legal entities and individuals). The amended transfer pricing legislation expands the list of legal entities and individuals that can be deemed related parties for tax purposes. The new transfer pricing rules also provide a special controlling mechanism for the tax authorities. The amendments will not however, be implemented with retrospective effect.

It should also be noted that Russian law does not provide for a possibility of group relief or fiscal unity. Consequently, tax losses of any Russian legal entity of the Group may not be surrendered to reduce the tax liability of any other Russian legal entity of the Group.

Our Group operates in various jurisdictions and includes companies incorporated outside of Russia. Russian tax laws as currently in effect do not provide detailed rules on taxation of foreign companies in Russia or operations of Russian companies abroad. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities or changes to their interpretation and application by the courts, we might be subject to additional taxation in Russia in respect of our operations outside Russia.

Russian tax legislation in effect as of the date of this Prospectus does not contain a concept of the corporate tax residency. Russian companies are taxed on their worldwide income whilst foreign entities are taxed in Russia on income attributable to a permanent establishment and on a Russian source income. The Russian Government in its Main Directions of Russian Tax Policy for 2009-2011 has proposed the introduction to the domestic tax law of a concept of tax residency for legal entities. According to the proposals, a company would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders. No assurance can be currently given as to whether and when these amendments will be enacted, their exact nature, their potential interpretation by the tax authorities and the possible impact on our Group. We may not rule out that, as a result of the introduction of these changes to the Russian tax legislation, certain companies of the Group might be deemed to be Russian tax residents, subject to all applicable Russian taxes.

These factors, plus the potential for state budget deficits, raise the risk of the imposition of additional taxes on us. The introduction of new taxes or amendments to current taxation rules may have a substantial impact on the overall amount of our tax liabilities. There is no assurance that we would not be required to make substantially larger tax payments in the future, which may affect the financial results of our Group. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing it and its Russian subsidiaries to significant fines and penalties and enforcement measures, and could adversely affect the Group's business, financial condition and results of operations.

Risks Relating to the ADSs

There may not be a liquid market for the ADSs and their market price may be volatile.

Although the ADSs originally issued are and the further ADSs will be admitted to trading and expected to continue to trade on the London Stock Exchange, an active public market for ADSs may not be sustained. Active, liquid trading markets generally result in lower price volatility and more efficient execution of "buy" and "sell" orders for investors. The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. The Russian Federation holds and is expected to continue to hold a significant controlling interest in Gazprom exceeding 50% of the Shares. If a liquid trading market for the ADSs is not sustained, the price of the ADSs may be more volatile and it may be more difficult to complete a "buy" or "sell" order for the ADSs. Other factors may also contribute to volatility in the market price for the ADSs. For example, our results may also fall below our expectations and the expectations of securities analysts and investors. In addition, stock markets, including the London Stock Exchange, from time to time experience extreme market-wide price and volume fluctuations due to macroeconomic factors, changes in perception and pricing of risk, and other factors. As a result of any one or more of the foregoing factors, the market price of the ADSs may decline.

Future sales of Shares or ADSs may affect the market price of the ADSs.

Sales, or the possibility of sales, of substantial numbers of Shares or ADSs in the public markets could have an adverse effect on the trading prices of the ADSs. Any primary equity offerings in the future may reduce the percentage ownership of our shareholders. Moreover, newly issued preferred shares may have rights, preferences or privileges senior to those of the Shares underlying the ADSs.

Voting rights with respect to the Shares represented by the ADSs are limited.

ADS holders will have no direct voting rights with respect to the Shares represented by the ADSs. ADS holders will be able to exercise voting rights with respect to the shares represented by ADSs only in accordance

with the provisions of the Deposit Agreements. See section titled "Description of the ADSs." Therefore, there are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. Holders of Shares will receive notice directly from us and will be able to exercise their voting rights either personally or by proxy. ADS holders, by comparison, will not receive notice directly from us. Rather, in accordance with the Deposit Agreements, we will provide notice to the Depositary. The Depositary has undertaken, in turn, if requested by us in writing in a timely manner and at our expense, to distribute to ADS holders notice of such meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by ADS holders. In order to exercise their voting rights, ADS holders must then instruct the Depositary how to vote the Shares represented by the ADSs they hold. As a result of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for ADS holders than for holders of the Shares, and we cannot assure ADS holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. Shares underlying ADSs for which the Depositary does not receive timely voting instructions will not be voted.

In addition, Russian securities regulations remain unclear as to whether the Depositary may split the votes with respect to the Shares underlying the ADSs in accordance with instructions from the holders of the ADSs. The holders of the ADSs may thus have significant difficulty in exercising voting rights with respect to the Shares underlying the ADSs. There can be no assurance that holders and beneficial owners of ADSs will (i) receive notice of general shareholders' meetings to enable the timely return of voting instructions to the Depositary, (ii) receive notice to enable the timely cancellation of ADSs with respect to shareholder actions (as discussed below) or (iii) be given the benefit of dissenting or minority shareholders' rights with respect to an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. The Depositary is only required to execute the voting instructions of the holders of ADSs insofar as practicable and as permitted under applicable law. In practice, holders of ADSs may not be able to instruct the Depositary to (i) vote the Shares represented by their ADSs on a cumulative basis if such votes are split and split votes are rejected by Gazprom or held invalid by the Russian courts, (ii) introduce proposals for the agenda of shareholders' meetings or request that a shareholders' meeting be called or (iii) nominate candidates for the Board of Directors or internal audit commission. If holders of ADSs wish to take such actions, they should timely request that their ADSs be cancelled and take delivery of Shares and thus become the owners of Shares on Gazprom's share register.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of the Shares.

Ownership of shares in Russian joint stock companies (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of a registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalisation and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or oversight by registrars incapable of compensating shareholders for their misconduct. In general, if transactions involving the Shares were to be improperly or inaccurately recorded by Gazprom's registrar, CJSC "SR-DRAgA" (the "Registrar") or registration of the Shares were to be lost by the Registrar, the beneficial holders of the Shares, including ADS holders, could lose all or part of the money invested in them. See "Description of Share Capital and Certain Requirements of Russian Legislation" for more discussion of the share registration system and registrars in Russia.

We may decide not to pay dividends in the future and holders of ADSs may be subject, in any event, to limitations or delays in repatriating their earnings from distributions made on the ADSs.

Gazprom accrued dividends in the amount of RR91,143 million, or RR3.85 per Share, for the year ended December 31, 2010, RR56,580 million, or RR2.39 per Share, for the year ended December 31, 2009 and RR8,522 million, or RR0.36 per Share, for the year ended December 31, 2008.

If we decide to make dividend distributions on our Shares, such dividend distributions must be recommended by our Board of Directors and approved by our shareholders, none of whom is under any obligation to either recommend or approve any dividend payments. In recommending or approving dividends, our Board of Directors and shareholders will take into account various factors, such as our operating results, financial condition, current and anticipated cash needs, credit terms, general economic conditions and other factors that the directors and/or shareholders deem to be important from time to time. See "Description of Share Capital and Certain Requirements of Russian Legislation—Dividends and Dividend Rights" and "Dividend Policy." Should Gazprom decide against declaring dividends in the future, the price of the ADSs may be adversely affected.

Gazprom anticipates that any dividends that it may pay in the future in respect of Shares held by the Depositary or its nominee on behalf of ADS holders will be declared and paid to the Depositary in rubles and will be converted into U.S. dollars by the Depositary and distributed to holders of the ADSs, net of all fees, taxes, duties, charges, cost and expenses which may become or have become payable under the Deposit Agreements or under applicable law in respect of such ADSs. Accordingly, the value of dividends received by holders of the ADSs will be subject to fluctuations in the exchange rate between the rouble and the U.S. dollars. Such fluctuations could have an adverse effect on the price of the ADSs.

Furthermore, even though current Russian legislation permits distributions in rubles to be converted into U.S. dollars by the Depositary without restriction, the ability to convert rubles into U.S. dollars would be subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge rouble and rouble-denominated investments.

In addition, dividends that Gazprom may distribute to the Depositary will be subject to applicable Russian withholding taxes. See "—Holders of the ADSs may not be able to benefit from double tax treaties" and, for a detailed description of the applicable Russian withholding taxes, "Taxation — Certain Russian Federal Tax Considerations — Taxation of Dividends".

Because the Depositary may be considered the owner of the Shares underlying the ADSs, these Shares may be arrested or seized in legal proceedings in Russia against the Depositary.

Many jurisdictions, such as the United Kingdom and the United States, distinguish between legal owners of securities, such as a depositary, and the beneficial owners of securities, such as the ADS holders. In these jurisdictions, shares held by a depositary on behalf of the ADS holders would not be subject to seizure in connection with legal proceedings against the depositary that are unconnected with the shares.

Russian law may not, however, recognise a distinction between legal and beneficial ownership of securities. Russian law generally treats a depositary as the owner of shares underlying ADSs and, accordingly, may not recognise ADS holders' beneficial ownership in such shares.

Therefore, in proceedings brought against a depositary, whether or not related to shares underlying ADSs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest. In the past, a lawsuit was filed against the depositary seeking the seizure of various Russian companies' shares represented by ADSs issued by the depositary. Though such lawsuit was dismissed, there can be no assurance

that similar lawsuits will not be filed in the future. In the event that this type of suit were to be successful in the future against the Depositary, and the Shares underlying our ADSs were to be seized or arrested, the ADS holders involved may lose their rights to such underlying Shares and all of the money invested in them.

Holders of the ADSs may not be able to benefit from double tax treaties.

Under Russian law, dividends paid to a non-resident holder of the ADSs generally will be subject to Russian withholding tax at a rate of 15%. Such Russian withholding tax may generally be subject to reduction pursuant to the terms of an applicable double tax treaty between the Russian Federation and the country of tax residence of non-resident investors to the extent such non-resident investors are entitled to benefit from this double tax treaty and the corresponding tax treaty relief provided by such treaty. For example, this tax may be reduced to 10% under the United Kingdom Russia Tax Treaty for UK Holders (as defined in "Taxation — United Kingdom Tax Considerations") entitled to treaty benefits. However, the Russian tax rules applicable to the holders of the ADSs are characterised by significant uncertainties and, until recently, by an absence of interpretive guidance. In particular, Russian tax law is silent as to whether the Depositary or the investors holding the ADSs should be viewed by the payer of dividends as the beneficial owners of the dividends. In private clarifications, the Russian Ministry of Finance expressed the view that holders of ADSs should be treated as the beneficial owners of the dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income, provided that the tax residencies of the holders of the ADSs are duly confirmed. However, in the absence of any specific provisions in Russian tax legislation with respect to taxation of income of beneficial owners, it is unclear how Russian tax authorities will ultimately treat the holders of the ADSs in this regard.

In addition, the Russian tax authorities may disallow application of a relief under the double tax treaty between Russia and the Depositary's or the ADS holder's country of residence. Thus, in the absence of any official interpretative guidance on the concept of beneficial ownership for Russian tax purposes with respect to the ADSs, Gazprom may withhold Russian withholding tax at the domestic rate applicable to such dividends, regardless of whether the Depositary (the legal owner of the Shares) or an ADS holder would be entitled to reduced rates of Russian withholding tax under the relevant double tax treaty if it were the beneficial owner of the dividends for purposes of that treaty. From a practical perspective, the Depositary is not required to collect residence confirmations from all ADS holders and submit such information to Gazprom, so Gazprom may be unaware of the exact amount of income payable to each particular holder and their residence. Therefore, non-resident holders of the ADSs (including UK Holders) may be unable to benefit from the relevant double tax treaties.

Although non-resident ADS holders may apply to the Russian tax authorities for a refund of the respective amount of tax so withheld by Gazprom, there can be no assurance that the Russian tax authorities will grant any refunds. In addition, there are uncertainties and practical difficulties for obtaining advance double tax treaty benefits for individuals. With respect to individuals who are non-resident holders of the ADSs, Gazprom may also be obligated to withhold income tax at the rate of 15% from dividend payments made to the Depositary. Gazprom will not be able to act as a tax agent for these individuals and will not be able to withhold personal income tax with respect to such dividend payments. In practice, it may be impossible to apply a beneficial withholding tax rate in advance with respect to payments made in favour of individuals, as documentation is to be first provided to the tax authorities to obtain their approval for the double tax treaty relief. Individuals who are non-resident holders of the ADSs will then be obliged to submit a personal tax return to the Russian tax authorities. When submitting the tax return, individuals may claim an application of the reduced rates of withholding tax established by the applicable international double tax treaties subject to certain tax treaty procedures. Obtaining the relevant approvals from the tax authorities may be time-consuming and burdensome. In practice, the tax authorities may not take into account the 15% tax withheld from payment of dividends to the Depositary, as the tax authorities are unlikely to treat the 15% withholding tax as a tax liability of individual holders. Therefore, it is possible that non-resident holders may be subject to an effective tax rate of up to 45% on dividends accrued on shares held on deposit (i.e., 15% income tax withheld by Gazprom plus 30% Russian personal income tax payable by a non-resident individual on a self-assessed basis).

The imposition or the risk of imposition of this withholding tax could adversely affect the value of the ADSs. See "Taxation — Certain Russian Federal Tax Considerations — Taxation of Dividends".

Russian resident holders of the ADSs may be subject to increased effective rates of tax on dividends due to the lack of clarity in the Russian tax law with respect to beneficial ownership.

As stated above, Russian tax law is silent as to whether the Depositary or investors holding ADSs should be viewed by the payer of dividends as beneficial owners of dividends. In private clarifications, the Russian Ministry of Finance expressed the view that the holders of ADSs should be treated as beneficial owners of dividends. However, in the absence of any specific provisions in Russian tax legislation with respect to taxation of income of beneficial owners, it is unclear how Russian tax authorities will ultimately treat the holders of the ADSs in this regard. Thus, Gazprom is likely to withhold Russian tax at the rate of 15% from dividend payments on the Shares represented by the ADSs, notwithstanding that such ADSs are owned by Russian resident investors. There can be no assurance that the reduction in tax rates under the provisions of the Russian domestic tax law will be available for Russian resident investors.

Furthermore, by virtue of receiving dividend payments from the Depositary rather than from Gazprom, Russian resident investors holding ADSs may be required to report these dividends in their tax returns as an income from foreign sources and pay additional tax on the declared amount at respective Russian domestic tax rates and would likely be unable to reclaim the tax initially withheld by Gazprom. The imposition or risk of imposition of this withholding tax could adversely affect the value of the ADSs. See "Taxation — Certain Russian Federal Tax Considerations — Taxation of Dividends".

Capital gains from the sale of the ADSs may be subject to Russian income tax.

If a non-resident investor which is a legal entity or an organisation disposes of the ADSs (other than through a permanent establishment in Russia) and the proceeds or capital gains from such disposal are deemed to be received from a Russian source, the gross proceeds or capital gains from such disposal may be subject to withholding tax in Russia at a rate of 20%. Capital gain is generally determined as the gross proceeds from the disposal of the ADSs less the cost of acquisition of such ADSs and less expenses incurred by such non-resident investor in relation to the acquisition, holding and sale of the ADSs (provided that the cost of acquisition of the ADSs and the other expenses can be confirmed by appropriate documents). The proceeds or capital gains from such disposal are deemed to be received from a Russian source if more than 50% of Gazprom's assets consist of immovable property located in Russia. The imposition or risk of imposition of this withholding tax could adversely affect the value of the ADSs.

Where the proceeds from the disposal of the ADSs are received from a source within the Russian Federation by a non-resident investor that is an individual, there is a risk that Russian withholding tax would be charged at a rate of 30% on the gain from such disposal. The imposition or risk of imposition of this withholding tax could adversely affect the value of the ADSs.

A Russian resident investor who is an individual should generally be subject to income tax at a rate of 13% on the gain from the disposal of the ADSs. The imposition or risk of imposition of this withholding tax could adversely affect the value of the ADSs.

See "Taxation — Certain Russian Federal Tax Considerations — Taxation of Capital Gains" for further details.

Holders of the Shares may not be able to deposit the Shares in the ADS programme in order to receive ADSs, and changes in Russian regulatory policy with respect to the placement and circulation of Shares outside Russia in the form of ADSs or otherwise may negatively affect the market for the ADSs.

Whenever the Depositary believes that the Shares deposited with it against issuance of ADSs represent (or, upon accepting any additional shares for deposit, would represent) such percentage as exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or triggers any condition for the making of any filing, application, notification or registration or obtaining any approval, licence or permit under any applicable law, directive or regulation, or taking any other action, the Depositary may close its books to

deposits of additional Shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied.

Gazprom has received permission from the FSFM for up to 35% of its outstanding Shares to be circulated abroad through ADSs or otherwise (being as of the date of this Prospectus 8,285,729,515 Shares or 4,142,864,757 Level I ADSs (assuming all Shares circulated abroad are in the form of Level I ADSs)). As of September 22, 2011 (being the latest practicable date prior to the publication of this Prospectus), 3,354,851,677 ADSs were outstanding. While application will be made to admit in aggregate up to 10,649,499,318 ADSs (in excess of the number of existing outstanding and listed ADSs) to listing on the Official List of the UKLA and to trading on the Regulated Market, there can be no assurance that we will be able to obtain approval for a deposit of a greater number of our Shares with the Depositary under the ADS programme than we currently have approval for because of various reasons, including the current Russian regulatory framework. As a result, you may not be able to deposit Shares with the Depositary under the ADS programme in order to receive ADSs, which may in either case affect the liquidity and the value of your investment.

In addition, under Russian corporate law, a person that has acquired more than 30%, 50% or 75% of an open stock company's ordinary shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for other shares of the same class and for securities convertible into such shares. From the moment of the relevant acquisition until the date the offer is sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% (or as the case may be, 50% or 75%) of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). See "Description of Share Capital and Certain Requirements of Russian Legislation — Description of Share Capital — Anti-Takeover Protection and Share Acquisition above Certain Thresholds".

Under Russian law, the Depositary may be considered the owner of the Shares underlying the ADSs, and as such may be subject to the mandatory public tender offer rules together with any of its affiliates acquiring the Shares. See "— Because the Depositary may be considered the owner of the Shares underlying the ADSs, these shares may be arrested or seized in legal proceedings in Russia against the Depositary". Accordingly, at present, the mandatory tender offer rules may result in a de facto cap on the aggregate holding of the Depositary and its affiliates in Gazprom's Shares of 30% for the purpose of the ADS programme (subject to other regulatory requirements and limits from time to time applicable to the ADS programme). Even if the Depositary takes a view that the Russian mandatory tender offer rules are not applicable to it and will continue to accept Shares for deposit into the ADS programme in excess of 30% of Gazprom's share capital, it may not be able to vote those number of Shares that exceeds 30% of the Gazprom's share capital as a person that failed to make a mandatory tender offer.

In addition, under Russian anti-monopoly legislation, transactions exceeding a certain amount involving companies with a combined value of the assets or exceeding certain other combined financial thresholds or companies registered as having more than 35% share of a certain commodity market and resulting in a shareholder (or a group of affiliated shareholders) holding more than 25%, 50% or 75% of the voting capital stock of such company, or in an acquisition of such company's assets the value of which exceeds a certain amount, must be approved in advance by the FAS. See "Certain Transactions— Approval of the Russian anti-monopoly authorities". The Depositary has received general interpretive guidance from the FAS that it does not need to obtain the approval referred to in the preceding sentence in connection with depositary receipt programmes such as the ADS programme. If, however, the FAS were to rescind or disregard its above mentioned interpretation, the aggregate holding of the Depositary in Gazprom's Shares for the purpose of the ADS programme would be subject to a de facto cap of 25% of Gazprom's Shares (subject to other regulatory requirements and limits from time to time applicable to the ADS programme), unless the Depositary could obtain the FAS approval for a higher percentage.

The aforementioned restrictions have been changed in the past and may be subject to changes at any time in the future by the Russian regulatory authorities, and there can be no assurance that changes by the authorities will not adversely affect the legality and/or size of the ADS programme, which could adversely affect the price of the ADSs.

DIVIDEND POLICY

The Joint Stock Companies Law and the Gazprom's charter set forth the procedure for determining the dividends that we can distribute to our shareholders. According to the Gazprom's charter, dividends may be paid annually, every nine months, semi-annually and quarterly. A decision on dividends must be taken at the general meeting of shareholders (annual or extraordinary) based on the Board of Directors' recommendation. A majority vote of the Board of Directors must recommend that dividends be paid and such recommendation then must be approved by a majority vote at a general meeting of shareholders. The amount of the dividend approved at the shareholders' meeting may not be more than the amount recommended by the Board of Directors. When making recommendations about payment, and when Gazprom pays dividends, it is required to follow the limitations established by the Joint Stock Companies Law. Dividends are distributed to holders of our shares as of the record date for the shareholders' meeting approving the dividends. In accordance with amendments to the Joint-Stock Companies Law, which came into force on December 28, 2010, a company is required to pay dividends within the time period, which is indicated in the shareholders' resolution approving the payment of such dividends, which may not be more than sixty days from the date of such resolution. A shareholder who is entitled to the declared dividends but has not received them must make a claim to the company within three years upon expiry of the sixty day period. Upon expiry of this three year period, claims for declared and unpaid dividends will lapse in favour of the company. Dividends are not paid on treasury shares.

CAPITALISATION

The following table shows our consolidated cash and cash equivalents and certain restricted cash, short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable and total capitalisation, consisting of long-term borrowings, long-term promissory notes payable and total equity, as of March 31, 2011, extracted from our unaudited consolidated interim condensed financial information as of and for the three months ended March 31, 2011. For further information regarding our financial condition, see "Summary Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements included elsewhere in this Prospectus.

The U.S. dollar amounts set forth below were not included in our annual audited consolidated financial statements and are provided for convenience only. They should not be construed as representations that the RR amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR28.4290 = U.S.\$1.00, which was the CBR rate on March 31, 2011.

	As of March 31, 2011	
	RR	U.S.\$
	(amounts in millions)	
	Unaudited	
Cash and cash equivalents and certain restricted cash ⁽¹⁾	447,778	15,751
Short-term borrowings and current portion of long-term borrowings.....	179,398	6,310
Short-term promissory notes payable	51	2
Total	627,227	22,063
Long-term borrowings	1,108,829	39,003
Long-term promissory notes payable.....	-	-
Total equity, of which:	6,980,364	245,537
Share capital ⁽²⁾	325,194	11,439
Treasury shares.....	(103,920)	(3,655)
Retained earnings and other reserves.....	6,485,560	228,132
Minority interest	273,530	9,622
Total capitalisation ⁽³⁾	8,089,193	284,540

Notes:

- (1) Includes cash restricted as to withdrawal under the terms of certain borrowings and other contractual obligations but excludes cash restricted as to withdrawal under banking regulations.
- (2) Authorised, issued and paid-in share capital consists of 23.7 billion Shares, each with a historical par value of RR5.
- (3) Totals may not sum due to rounding.

Since March 31, 2011, we have entered into the following material borrowings and loans. In April 2011, we signed an agreement to obtain a long-term unsecured syndicated loan facility from a consortium of banks for an amount of U.S.\$600 million at an interest rate of LIBOR+1.5% due in 2016. ZAO Mizuho Corporate Bank (Moscow) was appointed as the agent bank. In May 2011, we obtained project finance for the development of the Yuzhno-Russkoye oil and gas field from a consortium of foreign banks and OAO Gazprombank for an amount of RR5,993, U.S.\$657 million and euro 474 million at an interest rate of 11.4%, LIBOR+2.35% and EURIBOR+2.35%, respectively, due in 2018. UniCredit Bank AG was appointed as the agent bank.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations as of March 31, 2011 and 2010 and December 31, 2010, 2009 and 2008 and for the periods then ended in conjunction with our unaudited interim consolidated condensed financial information as of and for the three month periods ended March 31, 2011 and 2010 and our audited consolidated financial statements as of and for the years ended December 31, 2010, 2009 and 2008. The U.S. dollar amounts, except as indicated, have been translated from the ruble amounts at the rate of RR28.4290 = U.S.\$1.00, which was the rate published by the CBR on March 31, 2011.

Presentation of Financial Information

The financial information set forth in this Prospectus has been extracted from our:

- (a) audited consolidated financial statements as at and for the year ended December 31, 2010 prepared in accordance with IFRS and reported upon by ZAO PricewaterhouseCoopers Audit, with a comparison against the unaudited and revised consolidated financial statements as at and for the year ended December 31, 2009;
- (b) audited consolidated financial statements as at and for the year ended December 31, 2009 prepared in accordance with IFRS and reported upon by ZAO PricewaterhouseCoopers Audit, with a comparison against the unaudited and revised consolidated financial statements as at and for the year ended December 31, 2008;
- (c) audited consolidated financial statements as at and for the year ended December 31, 2008 prepared in accordance with IFRS and reported upon by ZAO PricewaterhouseCoopers Audit; and
- (d) unaudited consolidated interim condensed financial information as at and for the three months ended March 31, 2011 with a comparison against the consolidated interim condensed financial information as at and for the three months ended March 31, 2010, prepared in accordance with IFRS.

In 2010, the Group finalised assessment of the fair values of the assets and liabilities acquired in the business combinations that had occurred in 2009. In accordance with IFRS 3 "Business Combinations" management revised the preliminary assessment made as of the acquisition date and amended some measurements of assets and liabilities as of December 31, 2009. As a result, certain 2009 financial information that is included in the financial statements for the year ended December 31, 2010 (the "Unaudited Revised 2009 Financial Information") is different to the corresponding 2009 financial information that is included in the financial statements for the year ended December 31, 2009 (the "Audited 2009 Financial Information"). Further, in 2009, the Group changed the presentation of sales and purchases associated with the contracts entered into for trading purposes which are now presented in a separate line as "Net gain from trading activity". Prior to 2009, sales and purchases associated with such contracts used to be presented on a gross basis in sales and operating expenses. The presentation of 2008 comparative financial information has been changed to be consistent with the net presentation. As a result, certain 2008 financial information that is included in the financial statements for the year ended December 31, 2009 (the "Unaudited Revised 2008 Financial Information") is different to the corresponding 2008 financial information that is included in the financial statements for the year ended December 31, 2008 (the "Audited 2008 Financial Information"). For these reasons, where appropriate, both the Unaudited Revised 2009 Financial Information (as extracted from the financial statements for the year ended December 31, 2010) and the Audited 2009 Financial Information (as extracted from the financial statements for the year ended December 31, 2009) have been provided. Similarly, where appropriate, both the Unaudited Revised 2008 Financial Information (as extracted from the financial statements for the year ended December 31, 2009) and the Audited 2008 Financial Information (as extracted from the financial statements for the year ended December 31, 2008) have been provided. The Unaudited Revised 2009 Financial Information and the Unaudited Revised 2008 Financial Information are not covered by the respective audit reports issued by ZAO

PricewaterhouseCoopers and included in the financial statements for the years ended December 31, 2010 and December 31, 2009, respectively.

Overview

We are one of the world's largest oil and gas companies in terms of reserves, production and market capitalisation. Our revenues are primarily derived from sales of natural gas, crude oil and other hydrocarbon products to Europe and Other Countries, Russia and other FSU (Former Soviet Union) countries.

We divide our operations into the following principal businesses:

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

Other businesses primarily comprise production of other products and sales of various goods, works and services.

Our main business segments are mutually dependent, with a significant portion of the revenues of one segment comprising a part of the costs of another segment. In particular, our Distribution segment purchases natural gas from our Production of gas segment and transportation services from our Transport segment. Our Refining segment purchases gas from our Production of gas segment and crude oil and gas condensate from our Production of crude oil and gas condensate segment. We establish internal transfer prices with reference to the specific funding requirements of the individual subsidiaries within each segment. Accordingly, the results of operations of these segments on a stand-alone basis do not necessarily represent each segment's underlying financial position and results of operations as if it were a stand-alone business. For this reason, we do not analyse any of our main segments separately in the discussion that follows.

Effective January 1, 2009, we adopted IFRS 8 "Operating segments" ("IFRS 8"). IFRS 8 requires an entity to adopt the "management approach" to reporting of performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the statement of comprehensive income and balance sheet. IFRS 8 replaced IAS 14 "Segment reporting". The disclosures in accordance with IFRS 8 were first made in our consolidated financial statements for 2009, including 2008 as comparative in compliance with IFRS. The audited financial statements for the year ended December 31, 2008 included in this Prospectus do not include the IFRS 8 disclosures because we adopted the standard from January 1, 2009, when it became effective and therefore, we do not disclose any segment information for 2008 in this Prospectus.

Critical Accounting Policies

Our consolidated financial statements reflect the selection and application of accounting policies that require management to make significant estimates and assumptions. We believe that the following are the most critical accounting policies that currently affect our financial condition and results of operations.

Group accounting

Changes in accounting policy

The following new standards and amendments to standards were made mandatory for the first time for the financial year beginning January 1, 2010. IFRS 3 (revised) "Business combinations", and consequential amendments to IAS 27 "Consolidated and separate financial statements", IAS 28 "Investments in associates", and IAS 31 "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009.

The revised IFRS 3 continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The revised standard was applied to all acquisitions of controlling interests in 2010.

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

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

Subsidiary undertakings

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

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

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

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

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

Goodwill and non-controlling interest

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

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

Associated undertakings, jointly controlled entities and joint ventures

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

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

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

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

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

Financial instruments

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

Accounting for financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

Fair value disclosure

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

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

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

Derivative financial instruments

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

We routinely enter into sale and purchase transactions for the purchase and sales of gas, oil, oil products and other goods. The majority of these transactions are entered into meet supply requirements to fulfill

contract obligations and for own consumption and are not within the scope of IAS 39 "Financial instruments: recognition and measurement".

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

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

Non derivative financial assets

We classify our financial assets in the following categories:

- (a) financial assets at fair value through profit or loss,
- (b) available-for-sale financial assets, and
- (c) loans and receivables.

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

Financial assets at fair value through profit or loss

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

There were no material financial assets designated at fair value through profit or loss at inception as of March 31, 2011, December 31, 2010 and 2009.

Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value at inception and subsequently. Investments in quoted equity instruments classified as available-for-sale financial assets are measured at quoted

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

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

Loans and receivables

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

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

Impairment of financial assets

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

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

Options on purchase or sale of financial assets

Options on purchase or sale of financial assets are carried at their fair value. These options are accounted for as assets when their fair value is positive (for call options) and as liabilities when the fair value is

negative (for put options). Changes in the fair value of these options instruments are included within the profit and loss section of the consolidated statement of comprehensive income.

Cash and cash equivalents and restricted cash

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

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

Value added tax ("VAT")

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

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

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

Natural resources production tax

Natural resources production tax ("NRPT") on hydrocarbons, including natural gas and crude oil, is due on the basis of quantities of natural resources extracted. In particular, NRPT for natural gas is defined as an amount of volume produced per fixed tax rate (RR147 per mcm). NRPT for crude oil is defined as an amount of volume produced per fixed tax rate (RR419 per ton) adjusted depending on the monthly average market prices of the Urals blend and the RR/U.S.\$ exchange rate for the preceding month. Ultimate amount of the NRPT on crude oil depends also on the depletion and geographic location of the oil field. NRPT on gas condensate is defined as a fixed percentage from the value of the extracted mineral resource. Natural resources production tax is accrued as a tax on production and recorded within operating expenses.

Customs duties

The export of hydrocarbons outside of the Customs Union (defined below), including natural gas and crude oil, is subject to export customs duties. In particular, export of natural gas outside the boundaries of the customs union, which includes the Russian Federation, Belarus and Kazakhstan (the "Customs Union"), is subject to a fixed 30% export customs duty rate levied on the customs value of the exported natural gas. Export of crude oil and oil products outside of the Customs Union is also subject to the export customs duties set on a monthly basis by the Russian Government based on the monthly average price of Urals blend on world markets for the preceding month. In addition, crude oil exported to Belarus from 2007 to 2009 was subject to the export customs duty with a downward coefficient whereas since 2010 such exports are subject to the basic export

customs duty rate (i.e. customs duty rate applicable to export of oil outside the countries covered by the Customs Union), except for the "preferential" amount of crude oil agreed by the governments of Russia and Belarus intended for processing in Belarus and subsequent sale in the territory of Belarus and Russia, export of which outside Russian customs territory is not a subject to export customs duties. Revenues are recognised net of the amount of custom duties.

Inventories

Inventories are valued at the lower of net realisable value and cost. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses and completion costs.

Property, plant and equipment

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

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

Property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Interest costs on borrowings are capitalised as part of the cost of assets under construction during the period of time that is required to construct and prepare the asset for its intended use. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Depletion of acquired production licenses is calculated using the units-of-production method for each field based upon proved reserves. Oil and gas reserves for this purpose are determined in accordance with the PRMS Standards.

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

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

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

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

Impairment of non-current non-financial assets

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

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

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

Borrowings

Borrowings are recognised initially at their fair value which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are recognised at amortised cost, using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

Deferred tax

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

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

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official exchange rates prevailing at the reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the reporting date are recognised as exchange gains or losses within the profit and loss section of the consolidated statement of comprehensive income.

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

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

Provisions for liabilities and charges

Provisions, including provisions for pensions, environmental liabilities and asset retirement obligations, are recognised when we have a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. As obligations are determined, they are recognised immediately based on the present value of the expected future cash outflows arising from the obligations. Initial estimates (and subsequent revisions to the estimates) of the cost of dismantling and removing the property, plant and equipment are capitalised as property, plant and equipment.

Equity

Treasury shares

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

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

Dividends

Dividends are recognised as a liability and deducted from equity when they are recommended by the Board of Directors of Gazprom and approved at the shareholders' meeting.

Revenue recognition

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

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

Natural gas prices and gas transportation tariffs to the final consumers in the Russian Federation are established mainly by the FTS. Export gas prices for sales to European countries are indexed to oil products prices, as stipulated in long-term contracts. Export gas prices for sales to FSU countries are determined in various ways including using formulas, similar to those in relation to sales to European countries.

Promissory notes

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

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

Trading activity

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

Interest

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

Research and development

Research expenditure is recognised as an expense as incurred. Development expenditure is recognised as intangible assets (within other non-current assets) to the extent that such expenditure is expected to generate future economic benefits. Other development expenditures are recognised as an expense as incurred. However, development costs previously recognised as an expense are not recognised as an asset in a subsequent period, even if the asset recognition criteria are subsequently met.

Employee benefits

Pension and other post-retirement benefits

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

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

Social expenses

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

Recent Accounting Pronouncements

In 2011, we have adopted all IFRS, amendments and interpretations which are effective January 1, 2011 and which are relevant to its operations.

Standards, Amendments or Interpretations effective in 2011

Amendment to IAS 32 "Financial Instruments: Presentation" ("IAS 32") (issued in October 2008 and effective for annual periods beginning on or after February 1, 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The application of this amendment did not materially affect our consolidated financial statements.

Amendment to IAS 24 "Related Party Disclosures" ("IAS 24") (issued in November 2009 and effective for annual periods beginning on or after January 1, 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The application of this amendment did not materially affect our consolidated financial statements.

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

Amendment to IFRIC 14 "Prepayments of a Minimum Funding Requirement" ("IFRIC 14") effective for annual periods beginning on or after January 1, 2011. This amendment applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended

consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The application of this amendment did not materially affect our consolidated financial statements.

Improvements to IFRS (issued in May 2010 and effective from January 1, 2011) consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

Amendment to IFRS 3 "Business Combinations" ("IFRS 3") (i) requires measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) provides guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination.

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

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

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

Amendment to IFRIC 13 "Customer Loyalty Programmes" clarifies measurement of fair value of award credits. The application of these improvements did not materially affect our consolidated financial statements.

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

Standards, Amendments and Interpretations to existing Standards that are not yet effective and have not been early adopted by us

Amendment to IFRS 7 "Financial Instruments: Disclosures" (issued in October 2010 and is effective for annual periods beginning on or after July 1, 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The application of this amendment is not expected to materially affect our consolidated financial statements.

Amendments to IAS 12 "Income taxes: Recovery of Underlying Assets" ("IAS 12") (issued in December 2010 and effective for annual periods beginning on or after January 1, 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC 21, "Income Taxes – Recovery of Revalued Non-Depreciable Assets", which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16 "Property, Plant and Equipment" ("IAS 16") was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The application of this amendment is not expected to materially affect our consolidated financial statements.

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

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

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

We are currently assessing the impact of the standard on our consolidated financial statements.

IFRS 10 "Consolidated financial statements" ("IFRS 10") (issued in May 2011 and effective for annual periods beginning on or after January 1, 2013, with earlier application permitted), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. We are currently assessing the impact of the standard on the consolidated financial statements.

IFRS 11 "Joint arrangements" ("IFRS 11") (issued in May 2011 and effective for annual periods beginning on or after January 1, 2013, with earlier application permitted), replaces IAS 31 "Interests in Joint Ventures" ("IAS 31") and SIC 13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated.

Equity accounting is mandatory for participants in joint ventures. We are currently assessing the impact of the standard on the consolidated financial statements.

IFRS 12 "Disclosure of interest in other entities" ("IFRS 12") (issued in May 2011 and effective for annual periods beginning on or after January 1, 2013, with earlier application permitted), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 27 "Consolidated and Separate Financial Statements" and IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. We are currently assessing the impact of the standard on the consolidated financial statements.

IFRS 13 "Fair value measurement" ("IFRS 13") (issued in May 2011 and effective for annual periods beginning on or after January 1, 2013, with earlier application permitted), aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. We are currently assessing the impact of the standard on the consolidated financial statements.

Amended IAS 27 "Separate Financial Statements" ("IAS 27") (issued May 2011, effective for annual periods beginning on or after January 1, 2013, with earlier application permitted), contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The application of this amendment is not expected to materially affect our consolidated financial statements.

Amended IAS 28 "Investments in Associates and Joint Ventures" ("IAS 28") (issued May 2011, effective for annual periods beginning on or after January 1, 2013, with earlier application permitted), prescribes the accounting for investments in associates and contains the requirements for the application of the equity method to investments in associates and joint ventures. We are currently assessing the impact of the standard on the consolidated financial statements.

Amendments to IAS 1 "Presentation of financial statements" ("IAS 1") (issued June 2011, effective for annual periods beginning on or after July 1, 2012), changes the disclosure of items presented in other comprehensive income "OCI". The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. We are currently assessing the impact of the standard on the consolidated financial statements.

Amended IAS 19 "Employee benefits" ("IAS 19") (issued June 2011, effective for periods beginning on or after January 1, 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. We are currently assessing the impact of the standard on the consolidated financial statements.

Certain Factors Affecting our Results of Operations

The primary factors that affect our results of operations are significant volatility in global and Russian markets which affect demand for hydrocarbons, and the price for which we can sell our natural gas, crude oil and other hydrocarbon products, both internationally and in Russia. Other factors affecting our results are:

- the impact of fluctuations in ruble exchange rates against the U.S. dollar and euro;
- our historically high tax burden;

- interest rates;
- non-cash settlements;
- gas transportation agreements; and
- impairment of assets.

(see "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments" for further information)

The Current Economic Environment

Since Russia produces and exports large quantities of natural gas, crude oil and other commodities, its economy is particularly sensitive to fluctuations in world commodity prices. These prices reached record high levels in mid-2008 and have since experienced significant decreases, particularly the price of crude oil, which decreased by approximately 70% in the second half of 2008, only to recover in the second half of 2009. As a result of changes in economic conditions caused by the global financial crisis, significant uncertainty was observed in Russian banking sector and wider economy in 2009. Financial crisis led to bankruptcies of banks and the need to undertake measures to rescue banking systems in the USA, Europe and Russia. The recovery of global commodity markets and global environment significantly contributed to Russia's economic growth in 2010 and the first half of 2011.

Whilst there have been improvements in economic trends in the country since the economic crisis in 2008-2009, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, relatively restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and changes, which can occur frequently.

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

We operate internationally and are consequently exposed to foreign exchange risk arising from various currency exposures, particularly with respect to the U.S. dollar and the euro. We have significant foreign currency denominated receivables and borrowings.

The official ruble to U.S. dollar exchange rates as determined by the Central Bank of the Russian Federation increased from 28.4290 to 31.4122 in the period from March 31, 2011 to September 22, 2011 (being the latest practicable date prior to the publication of this Prospectus). The official ruble to euro exchange rates as determined by the Central Bank of the Russian Federation increased from 40.0223 to 43.0127 in the period from March 31, 2011 to September 22, 2011 (being the latest practicable date prior to the publication of this Prospectus).

The export price of natural gas

Our results of operations are heavily reliant on natural gas export prices. U.S. dollar prices for the natural gas we sell in the FSU and Europe and Other Countries increased in the three month period ended March 31, 2011 compared to the same period of the prior year and in 2010 compared to 2009, and decreased in 2009 compared to 2008.

Our natural gas export prices to Europe and Other Countries are indexed mainly to oil product prices as stipulated in long-term contracts and, therefore, fluctuate based on world oil prices. Due to the formulas underlying our long-term contracts, our prices are not as volatile on a short-term basis as spot crude oil prices and tend to lag upward and downward movements in oil product prices by approximately six to nine months. The Gas Directive established common rules for the transmission, distribution, supply and storage of natural gas in the European market and influenced European market structures and the overall level and volatility of prices.

Natural gas export prices for sales to FSU countries are mainly based on one-year fixed price contracts. Average natural gas export prices to FSU countries are usually below the level of those for Europe and Other Countries. This is partly due to lower transportation costs but is principally due to the impact of intergovernmental agreements, which effectively limit the prices we can charge to FSU countries.

Weather is another factor affecting demand for and, therefore, the price of natural gas. Changes in weather conditions from year to year can influence demand for natural gas and, to some extent, gas condensate and oil products.

The following table shows our average natural gas export prices to Europe and Other Countries and FSU countries for the three month periods ended March 31, 2011 and 2010 and for the years ended December 31, 2010, 2009 and 2008 (including excise tax, customs duties and net of VAT):

	Three month periods ended March 31,		Year ended December 31, ⁽¹⁾		Year ended December 31, ⁽²⁾		Year ended December 31, ⁽³⁾
	2011	2010	2010	2009	2009	2008	2008
	(Including excise tax and customs duties, net of VAT)						
	Unaudited		Audited	Unaudited Revised	Audited	Unaudited Revised	Audited
Our natural gas export price to Europe and Other Countries (average realised U.S.\$ per mcm) ⁽³⁾	343.1	293.5	301.8	296.7	287.5	407.4	407.3
Our natural gas export price to Europe and Other Countries (average realised U.S.\$ per mcf) ^(3,4)	9.7	8.3	8.6	8.4	8.1	11.5	11.5
Our natural gas export price to Europe and Other Countries (average nominal RR per mcm)	10,041.5	8,771.5	9,166.6	9,413.5	9,120.3	10,125.4	10,123.6
Our natural gas export price to FSU countries (average realised U.S.\$ per mcm) ⁽⁴⁾	258.0	232.9	231.7	202.1	202.1	159.2	159.2
Our natural gas export price to FSU countries (average realised U.S.\$ per mcf) ^(4,5)	7.3	6.6	6.6	5.7	5.7	4.5	4.5
Our natural gas export price to FSU countries (average nominal RR per mcm) ...	7,552.3	6,961.4	7,039.0	6,411.1	6,411.1	3,956.9	3,956.9

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.
- (3) As extracted from our consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with IFRS.
- (4) Average realised nominal prices and not convenience translations of ruble prices.
- (5) One mcm is equivalent to 35.316 thousand cubic feet.

Our business requires significant ongoing capital expenditures in order to maintain natural gas production levels and transportation systems. An extended period of low gas prices would limit our ability to maintain an adequate level of capital expenditures, which in turn could limit our ability to sustain current levels of production and deliveries of gas, thereby adversely affecting our results.

Regulation of domestic natural gas prices and transportation tariffs

Natural gas prices and transportation tariffs in Russia are regulated by the Government. See "Related Party Transactions under IFRS—Government".

Natural gas prices in Russia have remained significantly below export prices (even after netting back export tariffs and transportation costs) primarily due to governmental regulations. Since 2000, however, domestic natural gas prices have increased at a rate greater than inflation. For example, in the period from January 1, 2002 to December 31, 2010 annual weighted average regulated wholesale gas prices increased by approximately 476%, while cumulative inflation in the same period was approximately 161% (according to the Federal State Statistics Service, source: www.gks.ru).

The following table shows our average realised domestic natural gas prices (including excise tax and net of VAT) for the three month periods ended March 31, 2011 and 2010 and for the years ended December 31, 2010, 2009 and 2008:

	Three month periods ended March 31,		Year ended December 31,		
	2011	2010	2010	2009	2008
	(Including excise tax, net of VAT)				
Our domestic natural gas price (average nominal RR per mcm) ...	2,596.1	2,271.6	2,296.8	1,839.5	1,640.6
Our domestic natural gas price (average nominal RR per mcf) ⁽¹⁾	73.5	64.3	65.1	52.1	46.5
Our domestic natural gas price (average U.S.\$ per mcm) ⁽¹⁾	88.7	76.0	75.6	58.0	66.0
Our domestic natural gas price (average U.S.\$ per mcf) ^(1,2)	2.5	2.2	2.1	1.6	1.9

Notes:

(1) Average realised nominal prices and not convenience translations of ruble prices.

(2) One mcm is equivalent to 35.316 thousand cubic feet.

During the three month periods ended March 31, 2011 and 2010 and the years ended December 31, 2010, 2009 and 2008 our sales revenues derived from gas transportation services for third parties were 2%, 3%, 3%, 2% and 2% of total sales (net of excise tax, VAT and customs duties) for each of these periods.

Price of crude oil

Our net sales of crude oil for the three month periods ended March 31, 2011 and 2010 and the years ended December 31, 2010, 2009 and 2008 were RR48,362 million, RR38,503 million, RR169,193 million, RR157,874 million and RR191,378 million, respectively. This represents approximately 4%, 4%, 5%, 5% and 6% of our net sales for such periods. Our operations are affected by the prevailing price of crude oil, both in domestic and international oil markets. Crude oil prices have historically been highly volatile, dependent upon the balance between supply and demand, global and regional economic and political developments in resource-producing regions, particularly in the Middle East, global economic conditions and production levels of OPEC. In 2010, the economic recovery after the global financial downturn in 2008 and 2009 resulted in worldwide increase in demand for oil and correspondingly in the increase of world oil prices. Crude oil prices in the Russian Federation have historically been lower than in the international market primarily due to additional costs (in particular, customs duties) associated with exporting crude oil. Domestic crude oil prices are contract specific as there is no active market for domestic crude oil and market prices are not available.

Price of electricity and heat energy

Our electric and heat energy sales, which significantly increased after the expanding of the electricity resale activity of Gazprom Germania Group and the acquisition of OGC-2 and OGC-6 in July 2008 and TGC-1 in December 2009, for the three month periods ended March 31, 2011 and 2010 and the years ended December 31, 2010, 2009 and 2008 were RR112,536 million and RR93,397 million, RR288,655 million, RR192,826 million and RR134,335 million, respectively. This represents approximately 9%, 10%, 8%, 6% and

4% of our net sales for such periods. Our operations are affected by applicable electricity tariffs, which are set by the FTS and market (not regulated) prices for electricity and demand for electricity.

Impact of Inflation and Changes in Exchange Rates on Export Sales and Operating Margins

For the three month periods ended March 31, 2011 and 2010 and for the years ended December 31, 2010, 2009 and 2008, 61%, 58%, 60%, 63% and 69%, respectively, of our gross sales (including excise tax and customs duties, net of VAT) were denominated in U.S. dollars or euros, while most of our costs were denominated in rubles. The relative movements of inflation and exchange rates therefore significantly affect our results of operations. In particular, our operating margins are generally adversely affected by appreciation of the ruble against the U.S. dollar or euro, because this will generally cause our costs to increase relative to our sales revenues. The pressure on operating margins arising from ruble appreciation is further intensified by the relatively high inflation rate in Russia, which can further increase our costs, though this can be offset by domestic price rises when permitted by the FTS. Conversely, our operating margins are generally positively affected by depreciation of the ruble against the U.S. dollar or euro, because this will generally cause our costs to decrease relative to our sales revenues. However, an appreciation of the U.S. dollar or euro against the ruble also potentially increases the cost of servicing our indebtedness denominated in these currencies.

The following table sets forth the rates of inflation in Russia, the rates of nominal and real appreciation or depreciation of the ruble against the U.S. dollar and euro as determined by the CBR for the periods shown:

	Three month periods ended March 31,		Year ended December 31,		
	2011	2010	2010	2009	2008
Inflation ⁽¹⁾⁽²⁾	3.8%	3.1%	8.8%	8.8%	13.5%
Nominal appreciation (depreciation) of the RR against the U.S. \$ ⁽³⁾	8.5%	1.3%	(3.0)%	(6.0)%	(12.7)%
Real appreciation (depreciation) of the RR against the U.S. \$ ⁽³⁾	10.5%	3.6%	4.0%	(0.4)%	(1.1)%
Nominal appreciation (depreciation) of the RR against the euro ⁽³⁾	2.5%	9.2%	7.4%	(13.4)%	(5.6)%
Real appreciation (depreciation) of the RR against the euro ⁽³⁾	5.2%	11.7%	14.5%	(6.5)%	5.0%

Notes:

- (1) Inflation based on consumer price index (CPI).
- (2) Source: Russian Federal State Statistic Service (source: www.gks.ru).
- (3) Source: The CBR (source: www.cbr.ru). Calculated as December versus March for the period of three months ended March 31, 2011 and 2010 and December of the preceding year versus December of the subsequent year for the years ended December 31, 2010, 2009 and 2008.

Nominal appreciation (depreciation) of the ruble generally also results in foreign exchange losses (gains) on monetary assets denominated in foreign currencies and foreign exchange gains (losses) on monetary liabilities denominated in foreign currencies. These gains and losses are recorded on a gross basis. See "— Results of Operations."

Our Historically High Tax Burden

We provide one of the largest sources of tax revenue to the federal authorities in Russia, as well as to the regional and local authorities in those regions and localities in which we operate.

Given the relative size of our activities in Russia, our tax burden is largely determined by the level of taxes payable in Russia.

We are subject to a number of taxes and similar compulsory payments in Russia, including:

- profit tax (the maximum profit tax rate was 24% in 2008 and for 2009 and 2010 the maximum profit tax rate is 20%. In 2006, a depreciation premium was applied in respect of certain types of fixed assets (initially 10% of the amount of capital investment in such assets, and

increasing to 30% in 2009) was introduced under the Russian Tax Code. For certain production facilities (mainly gas pipelines and wells) an accelerated depreciation coefficient of 2 was applied);

- excise tax for certain oil products (effective from January 1, 2007, the excise tax for such oil products is paid by the producer of the oil products in the processing scheme);
- VAT (at a standard rate of 18% is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Prior to January 1, 2006 output VAT was charged on a cash basis, while input VAT was recovered upon payment for goods and services. From January 1, 2006, the VAT rules were changed. Output VAT has been charged on the earliest of: either the date of the shipment of goods and/or services, or the date of advance payment by the buyer. Input VAT has been generally recoverable when purchases are accounted for and other conditions are met. VAT on accounts receivable accounted before January 1, 2006 and non-paid before January 1, 2008 was to be charged and paid to the tax authorities in the first quarter of 2008. Input VAT on goods and services purchased before January 1, 2006 and non-paid before January 1, 2008 was to be recovered in the first quarter of 2008, except VAT on capital construction. Exports of goods and sales of certain services related to exported goods are subject to a 0% VAT rate upon the submission of confirmation documents to the tax authorities. Input VAT related to export sales is recoverable. A limited list of goods and services are not subject to VAT. Input VAT related to non-VAT taxable goods and services should not be recovered and should be included in the value of purchased goods and services, except in certain cases);
- natural resources production tax (the natural resources production tax rate for natural gas is equal to a fixed rate of RR147/mcm. The natural resources production tax rate for oil was equal to the statutory determined rate of RR419 per ton multiplied by the oil price ratio, which varied between 9.1 and 10.5 in the three month period ended March 31, 2011, between 7.0 and 8.8 in 2010, between 3.3 and 7.0 in 2009 and between 3.2 and 10.8 in 2008, and multiplied by the rate of field depletion, which, if applied, provides a reduction of the tax payable. Effective from January 1, 2009, the method of oil price ratio calculation has been amended leading, in general, to the decrease of the national resources production tax rate. The national resources production tax rate also depends on the geographic location of the oil field. In particular, extraction of oil from fields located in the Sakha, Irkutsk and Krasnoyarsk regions (and effective from January 1, 2009, in the Polar Territories and Caspian Sea) is subject to 0% tax rate for the national resources production tax);
- export customs duty on natural gas (customs duty rate is 30%);
- export customs duty on crude oil (during 2008 and 2007 export customs duty for crude oil was reviewed every two months based on the average price of Urals blend. The average Urals crude oil blend price was calculated as the price for Urals blend on world markets (Mediterranean and Rotterdam) for the two months immediately preceding the current two-month period. Starting in December 2008, the Russian government began reviewing export customs duty for crude oil every month based on the average price of Urals blend. The average Urals crude oil blend price is calculated as the price for Urals blend on world markets (Mediterranean and Rotterdam) for the one month immediately preceding the current one month period. The average amount of export customs duty on crude oil in the three month period ended March 31, 2011 and in 2010, 2009 and 2008 was approximately U.S.\$343, U.S.\$274, U.S.\$179 and U.S.\$348 per ton, respectively);
- property tax (the maximum property tax rate is 2.2%. The property tax is calculated based on the annual value of the fixed assets, part of the fixed assets are not recognised (exempt from taxation) for the purposes of the profit tax calculation (chiefly pipelines, electric power lines and other facilities which are integral part of these assets)); and
- social taxes and contributions (prior to January 1, 2010 the Unified Social Tax rate depended on the total amount of annual payments to an employee per year (on a regressive scale). The maximum rate in 2009 and 2008 was 26%. Effective from January 1, 2010 social contributions are calculated as the gross amount of an employee's salary and other remuneration multiplied by a rate of 26% in 2010 and 34% from January 1, 2011. From

January 1, 2010 Employee's salary and other remuneration are not subject to the social contributions in the portion exceeding RR415 thousand per year indexed by the cumulative increase of the average salary in Russia stating from January 1, 2010 through the end of the preceding year (in 2011, this limit amounts to RR463 thousand).

Our overall effective profit tax rates (current and deferred tax expense excluding the effect of change in tax rate from 24% to 20% as a percentage of IFRS profit before profit tax and minority interest) for the three month periods ended March 31, 2011 and 2010 and for the years ended December 31, 2010, 2009 and 2008 were 19%, 20%, 22%, 19.0% and 25.0%, respectively, while the statutory income tax rate in Russia has been 20% since January 1, 2009 and 24% in 2008. The difference between our effective profit tax rates and the statutory rates has been primarily the result of non-deductible expenses, such as social expenses, charitable donations, expenses exceeding prescribed limits for certain deductions and other non-production costs.

Interest Rates

We have significant short-term and long-term debt obligations with both fixed and variable interest rates. We are exposed to the effects of fluctuations in the prevailing levels of market interest rates on our financial position, results of operations and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest expense will increase or decrease as a result of movements in interest rates. We do not have any significant hedging arrangements to mitigate interest rate risks resulting from our financing activities. See "—Debt obligations."

Gas transportation agreements

We are dependent on the countries through which we transport our gas. In some cases, the contracts are made with gas companies and the terms are agreed on the Government level. The disputes on terms and conditions of gas transportation may impact our ability to deliver gas and therefore may impact our gas revenues.

Impairment provisions

Historically, our results have been affected by impairment provisions on accounts receivable, inventory, property, plant and equipment (including assets under construction), financial assets, other long-term assets and provisions for guarantees and other charges.

For the three month periods ended March 31, 2011 and 2010 and the years ended December 31, 2010, 2009 and 2008, expenses net of release for such impairment provisions amounted to RR391 million, RR4,242 million, RR48,711 million, RR45,428 million and RR98,964 million, respectively. The impairment charge in the three month period ended March 31, 2011 consisted primarily of an impairment provision relating to accounts receivable in the amount of RR2,538 million mainly in respect of the delivery of gas to southern regions of Russia.

Our provisions for accounts receivable are significant. As of March 31, 2011, December 31, 2010, 2009 and 2008 the aggregate balance sheet provision for accounts receivable and prepayments were RR200,023 million, RR197,949 million, RR181,794 million and RR131,484 million, or 12%, 14%, 13% and 11%, respectively, of the gross receivables and prepayments balance, respectively. Such provisions for accounts receivable relate mainly to receivables from parties on whose behalf we executed financial guarantees, and to receivables for natural gas sold to Moldova, former Yugoslavian countries and consumers in the Chechen Republic and other southern regions of Russia.

Our provisions for property, plant and equipment are also significant. As of March 31, 2011, December 31, 2010, 2009 and 2008 the aggregate balance sheet provision related to property, plant and equipment were RR150,361 million, RR150,533 million, RR151,544 million and RR144,576 million, or 2.6%, 2.7%, 3.0% and 3.5% of gross property, plant and equipment, respectively. Of this aggregate balance sheet provision, RR95,974 million as of March 31, 2011 relates to assets under construction, representing 5.7% of

gross assets under construction. The impairment provision for assets under construction as of March 31, 2011 primarily relates to the following projects: RR37,876 million for certain development projects in the Bovanenkovskoye and Kharasaveiskoye fields; RR33,144 million for the Novy Urengoi Chemical Complex; and RR8,060 million for part of the Obskaya-Bovanenkovo railroad construction.

For the three month period ended March 31, 2011 and for the years ended December 31, 2010, 2009 and 2008, the charge for impairment provisions for property, plant and equipment (including assets under construction) generated expense totalled RR21 million, RR621 million, RR9,683 million and RR54,165 million, respectively.

Because of our operating cycle, certain significant decisions about capital construction projects are made at the end of our fiscal year. Accordingly, we typically have larger charges (releases) in the fourth quarter of our fiscal year as compared to other quarters. For a discussion of our impairment provisions in the three month periods ended March 31, 2011 and 2010 and the years ended December 31, 2010, 2009 and 2008, see "—Results of Operations—Three month period ended March 31, 2011 versus three month period ended March 31, 2010", "—Results of Operations—Year ended December 31, 2010 versus year ended December 31, 2009" and "—Results of Operations—Year ended December 31, 2009 versus year ended December 31, 2008."

Certain Acquisitions, Dispositions and Changes in Control

Acquisitions and dispositions to March 31, 2011

Unless specified otherwise, all acquisitions referred to in this section have been completed.

In May 2007, we entered into an agreement with the Republic of Belarus to acquire a 50% interest in OAO Beltransgaz ("Beltransgaz"), a gas transportation company, for U.S.\$2,500 million. Pursuant to the agreement, we will acquire a 12.5% interest per annum from 2007, with annual payments of U.S.\$625 million. In June 2007 and February 2008, February 2009 and February 2010 we made four payments in amounts of U.S.\$625 million each, for which we received a 12.5% interest of Beltransgaz in respect of each payment. As a result we increased our interest in Beltransgaz to 50%. We account for Beltransgaz as an associated undertaking because the charter documents provide us with significant influence rather than control. We are currently considering increasing our stake in Beltransgaz and are engaged in discussions regarding the same.

In February 2008, a special-purpose company, Shtokman Development AG, was established to manage engineering, financing, construction and exploitation of installations during the first phase of the development of the Shtokmanovskoye field. Our stake in Shtokman Development AG is 51%, and Total and Statoil own the remaining 25% and 24% interests, respectively. We account for Shtokman Development AG as our associated undertaking because the shareholders agreement provides us with significant influence rather than control. The shareholders' equity of the company equalled RR32,605 million as of March 31, 2011.

At the general shareholders meeting of OAO Gazprombank ("Gazprombank") on June 24, 2008, the shareholders elected the new board of directors of Gazprombank. Five out of twelve newly elected board members are our representatives. As a result of this change, we lost our ability to control the financial and operating policies of the bank and its subsidiaries, including Sibur Holding and its subsidiaries and Gazprom-Media Group (the "Gazprombank Group") and ceased to consolidate Gazprombank and its subsidiaries. As we have retained significant influence over Gazprombank Group, we account for it under the equity method of accounting.

In July 2008, as a result of the restructuring of RAO UES, we exchanged our shares in RAO UES for interests in certain companies, including an additional 44.4% interest in OGK-2 and an additional 42.9% interest in OGK-6. As a result we obtained control over OGK-2 and OGK-6.

In July 2008, we acquired a 28.7% interest in TKG-1 which was prepaid for in February 2008 in the amount of RR39,219 million. As of December 31, 2009, we completed a series of transactions and obtained a controlling interest in TKG-1. Our controlling interest of 51.8% has been accumulated through the acquisition in November 2009 of OOO Gazprom Investproekt (formerly—OOO Russian Energy Projects) which owned a 19.5% interest of TKG-1 and the acquisition of additional 3.6% interest in TKG-1 in the fourth quarter 2009. The total purchase consideration primarily includes the cost of shares acquired in the fourth quarter of 2009 in the amount of RR28.3 billion and the fair value of the equity investment of RR33.2 billion.

In October 2008, ZAO Gazenergoprombank, our banking subsidiary, acquired a 100% interest in OAO Sobinbank, a Russian bank, for a de minimis amount. As of December 31, 2008, the total assets of the OAO Sobinbank, calculated in accordance with Russian accounting rules, were RR58 billion. In March 2010, the respective Boards of Directors of ZAO Gazenergoprombank, our banking subsidiary, and OAO AB Rossiya, a bank not related to us, approved a reorganisation in the form of merger of ZAO Gazenergoprombank with OAO AB Rossiya. In April 2010, shareholders of both banks approved the reorganisation. According to the merger agreement, all assets and liabilities of ZAO Gazenergoprombank were transferred to OAO AB Rossiya. In exchange for the controlling interest in ZAO Gazenergoprombank, we received a non-controlling interest in OAO AB Rossiya after completion of procedures required by the CBR. According to the terms of the merger agreement we lost the ability to control the financial and operating policies of ZAO Gazenergoprombank in April 2010 and received non-controlling interest in OAO AB Rossiya after completion of procedures required by the CBR. As a result, ZAO Gazenergoprombank and its subsidiaries were deconsolidated from the financial statements of the Group as of June 30, 2010 and were recognised at a fair value of RR8,514 million.

In the fourth quarter of 2008, we acquired a 47.6% interest in OAO Daltransgaz, a Russian gas transportation company, for RR7,408 million paid in cash. In December 2008, we acquired an additional 25% interest plus one ordinary share for RR2,604 million paid in cash.

In December 2008, we acquired 50% plus one ordinary share in OAO Gazprom neftekhim Salavat (formerly OAO Salavatnefteorgsintez), a leading Russian oil refining and petrochemical company, for RR20,959 million. We account for OAO Salavatnefteorgsintez as our associated undertaking because the charter documents provide us with significant influence rather than control.

In December 2008, we acquired a 75% interest in bank AKB Soyuz (OAO), a Russian bank, for RR1 million paid in cash. This transaction provided us with effective control over AKB Soyuz (OAO) as of April 2009. In the first quarter of 2010 AKB Soyuz (OAO) was deconsolidated as a result of a disposal of our controlling interest to a third party.

On February 3, 2009, we acquired a 51% interest in Naftna Industrija Srbije ("NIS") for RR18.5 billion (Euro 400 million). As part of the purchase agreement the Group pledged to invest euro 547 million (approximately RR24.6 billion as at the acquisition date) to rebuild and upgrade NIS's refining facilities by 2012.

In April 2009 we purchased an additional 20% interest in Gazprom Neft for U.S.\$4.1 billion (approximately RR138 billion) from ENI S.p.A. As a result of this transaction, we increased our interest in Gazprom Neft to 95.68%.

Between April 2009 and February 2011, our subsidiary Gazprom Neft acquired an interest of 100% in Sibir Energy. The total cost of the acquisition amounted to U.S.\$3.2 billion. We have consolidated Sibir Energy as a subsidiary starting from June 23, 2009. As a result of the acquisition of Sibir Energy, Gazprom Neft also obtained control over OAO Moskovsky NPZ ("Moscow Oil Refinery"), having increased its cumulative share in Moscow Oil Refinery to 77.72%. Acquisition of Sibir Energy also resulted in the acquisition of a 50% interest in Salym Petroleum Development N.V. (a joint venture with Royal Dutch Shell).

In September 2009 we acquired a 51% interest in OOO SeverEnergiya. The purchase consideration was U.S.\$1.6 billion (approximately RR47 billion). We had paid the acquisition price in full by March 31, 2010. In late 2010, as a result of the sale of our 51% interest in SeverEnergiya to OOO Yamal Razvitie, a joint venture

between Gazprom Neft and OAO Novatek ("OAO Novatek" or "Novatek"), our share in SeverEnergiya was reduced to 25.5%.

In June 2009, we entered into an agreement with E.ON Ruhrgas to swap 25% less three ordinary and three preference shares without voting rights of Severneftegazprom and a preference share in ZAO Gazprom YRGM Development. In October 2009 we closed the transaction with E.ON Ruhrgas. In exchange we received E.ON Ruhrgas' share in ZAO Gerosgaz, which led to an increase in OAO Gazprom's treasury shares of 2.9%.

In December 2010, the Group sold a portion of its associated undertaking (total carrying value of RR84,978 as of the date sold) representing a 9.4% interest in OAO Novatek to a party unrelated to the Group for RR57,462 paid in cash. As a result of this transaction the Group has ceased to exercise significant influence over the business activities of OAO Novatek. Therefore the remaining 9.99% interest was classified as a long-term available-for-sale financial asset and was recognised at fair value in the amount of RR104,484 at the date of disposal. In the consolidated statement of comprehensive income for the year ended December 31, 2010 the Group recognised a gain of RR77,375 representing the difference between the sum of fair value of the remaining 9.99% interest at the date of transaction, cash proceeds from disposal of 9.4% interest and accumulated net gain previously recognised in other comprehensive income in relation to this associated undertaking, and the carrying amount of total 19.39% interest as at transaction date.

In accordance with our Investment Programme for the 2011 financial year, we plan to invest by the end of 2011 RR4.2 billion in OGK-2, RR32.5 billion in OGK-6, RR51.3 billion in TGK-1, RR43.2 billion in Mosenergo and euro 468.5 million in NIS.

We have also made commitments to invest a further RR70.6 billion in OGK-2, RR34.4 billion in OGK-6, RR18.3 billion in TGK-1, RR57.1 billion in Mosenergo and euro 78.5 million in NIS after January 1, 2012.

Result of Operations

The following table summarises our consolidated results of operations for the three month periods ended March 31, 2011 and 2010 and for the years ended December 31, 2010, 2009 and 2008. Each line-item is also shown as a percentage of our total sales.

	Three month periods ended March 31,				Year ended December 31, ⁽¹⁾				Year ended December 31, ⁽²⁾				Year ended December 31, ⁽³⁾	
	2011		2010		2010		2009		2009		2008		2008	
	(RR million)	(% of sales)	(RR million)	(% of sales)	(RR million)	(% of sales)	(RR million)	(% of sales)	(RR million)	(% of sales)	(RR million)	(% of sales)	(RR million)	(% of sales)
	Unaudited		Unaudited		Audited		Unaudited Revised		Audited		Unaudited Revised		Audited	
Sales (net of excise tax, VAT and customs duties).....	1,316,747	100%	954,327	100%	3,597,054	100%	2,991,001	100%	2,990,971	100%	3,285,486	100%	3,518,960	100%
Net gain from trading activity ⁽¹⁾	(330)	0%	(196)	0%	6,256	0%	4,171	0%	8,295	0%	4,221	0%	—	—
Operating expenses.....	(817,909)	(62%)	(614,830)	(64%)	(2,440,777)	(68%)	(2,092,832)	(70%)	(2,096,926)	(70%)	(1,930,437)	(59%)	(2,159,690)	(61%)
Impairment provisions and other provisions.....	—	—	—	—	(48,711)	1%	(45,428)	2%	(45,428)	(2%)	(98,964)	(3%)	(98,964)	(3%)
Operating profit	498,508	38%	339,301	36%	1,113,822	31%	856,912	29%	856,912	29%	1,260,306	38%	1,260,306	36%
Purchase of non-controlling interest in OAO Gazprom Neft.....	—	—	—	—	—	—	13,865	1%	13,865	1%	—	—	—	—
Gain from disposal of OAO Novatek.....	—	—%	(—)	(—%)	77,375	2%	—	—	—	—	—	—	—	—
Gain from swap of assets transaction.....	—	—	—	—	—	—	105,470	4%	105,470	4%	—	—	—	—
(Loss) gain from change in fair value of call option ...	—	—	—	—	—	—	—	—	—	—	(50,738)	(2%)	(50,738)	(1%)
Gain from sale of interest in subsidiary.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Deconsolidation of Gazfund.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Net finance income (expense).....	53,690	4%	(52,537)	(6%)	2,694	0%	(65,688)	(2%)	(65,688)	(2%)	(175,576)	(5%)	(175,576)	(5%)
Share of net income (loss) of associated undertakings and jointly controlled entities.....	38,519	3%	28,229	3%	76,520	2%	62,557	2%	62,557	2%	(16,686)	(1%)	(16,686)	(0%)
Gains on disposal of available-for-sale financial assets.....	349	0%	1,629	0%	3,292	0%	6,319	0%	6,319	0%	14,326	0%	14,326	0%
Profit before profit tax	591,066	45%	421,696	44%	1,273,703	35%	979,435	33%	979,435	33%	1,031,632	31%	1,031,632	29%
Current profit tax expense.....	(108,864)	(8%)	(55,053)	(6%)	(249,387)	(7%)	(182,255)	(6%)	(182,255)	(6%)	(307,094)	(9%)	(307,094)	(9%)
Deferred profit tax (expense) benefit.....	(3,702)	(0%)	(29,794)	(3%)	(26,323)	(1%)	(3,387)	0%	(3,387)	(0%)	46,842	1%	46,842	0%
Total profit tax expense.....	(112,566)	(9%)	(84,847)	(9%)	(275,710)	(8%)	(185,642)	(6%)	(185,642)	(6%)	(260,252)	(8%)	(260,252)	(7%)
Profit for the period	478,500	36%	336,849	35%	997,993	28%	793,793	27%	793,793	27%	771,380	23%	771,380	22%
Owners of OAO Gazprom.....	467,969	36%	324,953	34%	968,557	27%	779,585	26%	779,585	26%	742,928	23%	742,928	21%
Non-controlling interest.....	10,531	1%	11,896	1%	29,436	1%	14,208	0%	14,208	0%	28,452	1%	28,452	1%

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Revised 2009 Financial Information though extracted from the above consolidated financial statements are

unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Revised 2009 Financial Information.

- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS. The Revised 2008 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Revised 2008 Financial Information.
- (3) As extracted from our consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with IFRS.
- (4) In 2009, the Group changed the presentation of sales and purchases associated with contracts entered into for trading purposes. They are presented on a separate line as "Net gain from trading activity". Sales and purchases associated with such contracts were formerly presented on a gross basis in sales and operating expenses. The presentation of 2008 comparative financial information has been changed to be consistent with the 2009 presentation.

Segmental Sales Information

The following table summarises our sales information for our operating segments for the years ended December 31, 2010, 2009 and 2008.

	Year ended December 31, ⁽¹⁾		Year ended December 31, ⁽²⁾		Year ended December 31, ⁽³⁾
	2010	2009	2009	2008	2008
	Audited	Unaudited Revised	(RR million)		Audited
			Audited	Unaudited Revised	
Gas sales (including excise tax and custom duties, net of VAT) to customers in:					
Russian Federation.....	636,843	503,121	503,121	479,387	479,387
Former Soviet Union (excluding Russian Federation).....	493,806	363,400	363,400	381,902	381,902
Europe and other countries.....	1,357,852	1,396,415	1,393,958	1,697,078	1,866,933
Gross sales of gas.....	2,488,501	2,262,936	2,260,479	2,558,367	2,728,222
Excise tax.....	-	(220)	(220)	(81)	(81)
Customs duties.....	(302,296)	(344,213)	(344,213)	(461,740)	(461,740)
Net sales of gas.....	2,186,205	1,918,503	1,916,046	2,096,546	2,266,401
Sales of refined products to customers in:					
Russian Federation.....	412,208	297,885	297,885	378,182	378,182
Former Soviet Union (excluding Russian Federation).....	36,042	35,951	35,951	44,980	44,980
Europe and other countries.....	260,812	206,669	206,669	229,794	229,794
Total sales of refined products.....	709,062	540,505	540,505	652,956	652,956
Sales of crude oil and gas condensate to customers in:					
Russian Federation.....	23,148	18,127	18,127	27,577	27,577
Former Soviet Union (excluding Russian Federation).....	25,967	26,562	26,562	26,570	26,570
Europe and other countries.....	146,959	131,714	131,714	160,808	160,808
Sales of crude oil and gas condensate.....	196,074	176,403	176,403	214,955	214,955
Electric and heat energy sales:					
Russian Federation.....	281,853	188,994	191,334	131,965	131,965
Former Soviet Union (excluding Russian Federation).....	3,476	3,706	3,706	2,370	2,370
Europe and other countries.....	3,326	126	-	-	62,897
Total electric and heat energy sales.....	288,655	192,826	195,040	134,335	197,232
Gas transportation sales:					
Russian Federation.....	91,353	64,597	64,597	70,080	70,080
Former Soviet Union (excluding Russian Federation).....	1,278	966	966	605	605
Europe and other countries.....	-	-	-	-	-
Total gas transportation sales.....	92,631	65,563	65,563	70,685	70,685
Other revenues:					
Russian Federation.....	108,933	82,930	82,930	99,194	99,194
Former Soviet Union (excluding Russian Federation).....	7,683	6,664	6,664	7,685	7,685
Europe and other countries.....	7,811	7,607	7,820	9,130	9,852
Total other revenues.....	124,427	97,201	97,414	116,009	116,731
Total sales.....	3,597,054	2,991,001	2,990,971	3,285,486	3,518,960

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS. The Revised 2008 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Revised 2008 Financial Information.

- (3) As extracted from our consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with IFRS.

Three Month Period ended March 31, 2011 versus Three Month Period ended March 31, 2010

Sales

The following table sets out our volumes and realised prices for the three month periods ended March 31, 2011 and 2010.

	Three month periods ended March 31,	
	2011	2010
	(RR million unless indicated otherwise)	
	Unaudited	
Sales of gas		
<i>Europe and other countries</i>		
Gross sales ⁽¹⁾	468,121	365,482
Customs duties	(69,588)	(79,734)
Net sales	398,533	285,748
Volumes in billion cubic meters (bcm).....	46.6	41.7
Gross average price, U.S.\$ per mcm ⁽²⁾ (including excise tax and customs duties) ⁽³⁾	343.1	293.5
Gross average price, RR per mcm ⁽²⁾ (including excise tax and customs duties).....	10,041.5	8,771.5
<i>FSU (Former Soviet Union)</i>		
Gross sales (net of value added tax (VAT))	220,243	118,393
Customs duties	(14,849)	(24,564)
Net sales	205,394	93,829
Volumes in bcm	29.2	17.0
Gross average price, U.S.\$ per mcm ⁽²⁾ (including customs duties, net of VAT) ⁽³⁾	258.0	232.9
Gross average price, RR per mcm ⁽²⁾ (including customs duties, net of VAT).....	7,552.3	6,961.4
<i>Russian Federation</i>		
Gross sales (net of VAT).....	266,042	232,783
Net sales	266,042	232,783
Volumes in bcm	102.5	102.5
Gross average price, RR per mcm ⁽²⁾ (net of VAT)	2,596.1	2,271.6
<i>Total sales of gas</i>		
Gross sales (net of VAT).....	954,406	716,658
Customs duties	(84,437)	(104,298)
Net sales	869,969	612,360
Volumes in bcm	178.3	161.2
Net sales of refined products (net of excise tax, VAT and customs duties).....	214,887	153,545
Net sales of electric and heat energy (net of VAT)	112,536	93,397
Net sales of crude oil and gas condensate (net of excise tax, VAT and customs duties)	57,345	44,584
Gas transportation net sales (net of VAT)	28,796	25,147
Other revenues (net of VA).....	33,124	25,294
Total sales (net of excise tax, VAT and customs duties).....	1,316,747	954,327

Notes:

- (1) VAT is not charged on sales to Europe and Other Countries.
(2) One mcm is equivalent to 35.316 thousand cubic feet.
(3) Calculated on the basis of average rate.

Total sales (net of excise tax, VAT and customs duties) increased by RR362,420 million, or 38%, to RR1,316,747 million in the three month period ended March 31, 2011 compared to the same period of the prior year.

Net sales of gas accounted for 66% and 64% of total net sales in the three month periods ended March 31, 2011 and 2010, respectively.

Net sales of gas increased from RR612,360 million in the three month period ended March 31, 2010 to RR 869,969 million in the three month period ended March 31, 2011 or by 42%.

Net sales of gas to Europe and other countries increased in the three month period ended March 31, 2011 compared to the three month period ended March 31, 2010, by RR112,785 million, or 39%, to RR398,533 million. The overall increase in net sales of gas to Europe and other countries was primarily driven by the increase in average prices. The gross average RR price (including excise tax and customs duties) increased by 14% in the three month period ended March 31, 2011, compared to the three month period ended March 31, 2010. In addition, volume of gas sold in the three month period ended March 31, 2011 increased by 12% compared to the same period of the prior year.

Net sales of gas to FSU countries increased in the three month period ended March 31, 2011 compared to the three month period ended March 31, 2010, by RR111,565 million, or 119%, to RR205,394 million. This increase was mainly due to the increase in volumes of gas sold to FSU countries by 72% in the three month period ended March 31, 2011 compared to the three month period ended March 31, 2010. In addition, the gross average RR price (including customs duties, net of VAT) increased by 8% in the three month period ended March 31, 2011 compared to the same period of the prior year.

Net sales of gas in the Russian Federation increased in the three month period ended March 31, 2011 compared to the same period of the prior year, by RR33,259 million, or 14%, to RR266,042 million. This increase was due to the increase in the gross average price for domestic gas sales by 14% in the three month period ended March 31, 2011 compared to the same period of the prior year due to the increase in tariffs which are set by the FTS.

Net sales of refined products (net of excise tax, VAT and customs duties) increased by RR61,342 million, or 40%, to RR214,887 million in the three month period ended March 31, 2011 in comparison with the same period of the prior year. The increase mainly resulted from the increase of world prices for refined products and increase in volumes sold in the three month period ended March 31, 2011 compared to the same period of the prior year. In the three month periods ended March 31, 2011 and 2010 Gazprom Neft Group's sales comprised 83% and 82% of the total amount of our net sales of refined products, respectively.

Net sales of electric and heat energy (net of VAT) increased by RR19,139 million, or 20%, to RR112,536 million in the three month period ended March 31, 2011 compared to the same period of the prior year. This increase was mainly due to the increase in tariffs.

Net sales of crude oil and gas condensate (net of excise tax, VAT and customs duties) increased by RR12,761 million, or 29%, to RR57,345 million in the three month period ended March 31, 2011 compared to RR44,584 million in the three month period ended March 31, 2010. The increase was mainly caused by the increase in oil and gas condensate prices in the three month period ended March 31, 2011 compared to the same period of the prior year. Also the increase was supported by the increase of the volume of gas condensate sold in the three month period ended March 31, 2011 compared to the same period of the prior year. Sales of crude oil included in net sales of crude oil and gas condensate (net of excise tax, VAT and customs duties), amounted to RR 48,362 million and RR 38,503 million in the three month periods ended March 31, 2011 and 2010, respectively.

Gas transportation net sales (net of VAT) increased by RR3,649 million, or 15%, to RR28,796 million in the three month period ended March 31, 2011 from RR25,147 million in the three month period ended March 31, 2010. The increase was mainly caused by the increase in gas transportation tariffs for independent gas suppliers in the three month period ended March 31, 2011 compared to the same period of the prior year.

Other revenues increased by RR7,920 million, or 31%, to RR33,214 million in the three month period ended March 31, 2011 compared to RR25,294 million in the three month period ended March 31, 2010.

Net loss from trading activity increased by RR134 million, or 68%, to RR330 million in the three month period ended March 31, 2011 compared to RR196 million in the three month period ended March 31, 2010.

Operating expenses

Operating expenses increased by 33% in the three month period ended March 31, 2011 to RR 817,909 million from RR 614,830 million in the three month period ended March 31, 2010. Operating expenses as a percentage of sales decreased from 64% in the three month period ended March 31, 2010 to 62% in the three month period ended March 31, 2011. The table below presents a breakdown of operating expenses in each period:

	Three month periods ended 31 March,	
	2011	2010
	(RR million)	
	Unaudited	
Purchased gas and oil	263,513	130,891
Taxes other than on income	101,886	71,417
Staff costs	87,812	75,461
Depreciation	66,968	61,502
Transit of gas, oil and refined products	63,746	76,386
Repairs and maintenance	31,644	27,626
Materials	25,050	24,141
Cost of goods for resale, including refined products	24,092	6,216
Electricity and heating expenses	21,248	17,580
Exchange rate differences on operating items	20,434	20,513
Transportation services	9,046	4,431
Social expenses	7,242	5,303
Rental expenses	4,404	5,074
Insurance expenses	4,142	3,912
Research and development expenses	3,822	5,243
Processing services	2,105	1,842
Charge for impairment provisions	391	4,242
Other	38,823	50,968
	776,368	592,748
Changes in inventories of finished goods, work in progress and other effects	41,541	22,082
Total operating expenses	817,909	614,830

Purchased gas and oil

The cost of purchased gas and oil increased by 101% to RR263,513 million in the three month period ended March 31, 2011 from RR130,891 million in the three month period ended March 31, 2010. Cost of purchased gas increased by RR120,803 million, or 139%. This increase relates to the increase in volumes and increase in prices of gas purchased from third parties within Russian Federation and abroad. The cost of purchased oil included in the cost of purchased gas and oil increased by RR11,819 million, or 27%, and amounted to RR56,045 million in the three month period ended March 31, 2011 in comparison with RR44,226 million in the three month period ended March 31, 2010 due to the increase in oil prices as well as the increase in volumes of purchased oil.

Taxes other than on income

Taxes other than on income consist of:

	Three month periods ended March 31,	
	2011	2010
	(RR million)	
	Unaudited	
Natural resources production tax	65,993	43,999
Excise tax	21,605	14,241
Property tax	11,506	10,718
Other taxes	2,782	2,459
Taxes other than on income	101,886	71,417

The natural resources production tax increased by 50% to RR65,993 million in the three month period ended March 31, 2011 from RR43,999 million in the three month period ended March 31, 2010. The increase mainly resulted from the general increase of natural resources production tax rate for gas from RR147 to RR237 per thousand cubic meters from January 1, 2011 as well as from the increase of natural resources production tax rate for oil due to the increase in average world oil prices.

Staff costs

Staff costs increased by 16% to RR87,812 million in the three month period ended March 31, 2011 from RR75,461 million in the three month period ended March 31, 2010. The increase mainly resulted from the salary indexation.

Depreciation

Depreciation increased by 9% or RR5,466 million to RR66,968 million in the three month period ended March 31, 2011 from RR61,502 million in the three month period ended March 31, 2010. The increase primarily relates to the growth in fixed asset base.

Transit of gas, oil and refined products

Transit of gas, oil and refined products decreased by 17% to RR63,746 million in the three month period ended March 31, 2011 from RR76,386 million in the three month period ended March 31, 2010. This decrease mainly relates to the decrease in costs of transportation through Ukraine.

Repairs and maintenance

Cost of repairs and maintenance increased by 15% to RR31,644 million in three month period ended March 31, 2011 from RR27,626 million in the three month period ended March 31, 2010. This increase was caused by the increase of volume of repair services rendered by third parties to the Group in three month period ended March 31, 2011.

Materials

Cost of materials increased by 4% to RR25,050 million in the three month period ended March 31, 2011 from RR24,141 million in the three month period ended March 31, 2010. The increase mainly resulted from the increase in prices for purchased materials.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased by 288% to RR24,092 million in the three month period ended March 31, 2011 from RR6,216 million in the three month period ended March 31, 2010. The increase in cost of goods for resale, including refined products, mainly results from the increase in volumes of refined products purchased by the Gazprom Neft Group and the increase in prices for refined products.

Electricity and heating expenses

Electricity and heating expenses increased by 21% to RR21,248 million in the three month period ended March 31, 2011 from RR17,580 million in the three month period ended March 31, 2010. The increase mainly resulted from the increase of electricity tariffs.

Exchange rate differences on operating items

Exchange rate differences on operating items in the three month periods ended March 31, 2011 and 2010 amounted to a net loss of RR20,434 million and of RR20,513 million, respectively. The change was primarily driven by appreciation of rubles against U.S. dollars and euro by 7% and 1%, respectively, in the three months ended March 31, 2011, compared to appreciation of rubles against U.S. dollars and euro by 3% and 8%, respectively, in the same period of the prior year.

Other operating expenses

Other operating expenses decreased by 24% to RR38,823 million in the three month period ended March 31, 2011 from RR50,968 million in the three month period ended March 31, 2010. Other expenses include heat energy transmission expenses, bank charges, security services, legal and consulting services, charity and finance aid and advertising.

Changes in inventories of finished goods, work in progress and other effects

Changes in inventories of finished goods, work in progress and other effects increased by 88% to RR41,541 million in the three month period ended March 31, 2011 from RR22,082 million in the three month period ended March 31, 2010. Positive amount of changes in inventories of finished goods, work in progress and other effects in the three month period ended March 31, 2011 relates mainly to the decrease in the balances of finished goods as of March 31, 2011 in comparison with those as of December 31, 2010.

Operating profit

As a result of the factors discussed above, our operating profit increased by RR159,207 million, or 47%, to RR498,508 million in the three month period ended March 31, 2011 from RR339,301 million in the same period of the prior year. Our operating profit margin increased from 36% in the three month period ended March 31, 2010 to 38% in the three month period ended March 31, 2011.

Net finance income

	Three month periods ended March 31,	
	2011	2010
	(RR million)	
	Unaudited	
Exchange gains.....	69,830	63,940
Exchange losses.....	(3,360)	(4,686)
Net exchange gain	66,470	59,254
Interest income	4,042	7,560
Interest expense	(16,918)	(14,279)
Gains on extinguishment of restructured liabilities	96	2
Net finance income	53,690	52,537

Exchange gains increased by RR5,890 million to RR69,830 million in the three month period ended March 31, 2011, compared to RR63,940 million in the three month period ended March 31, 2010. Exchange losses decreased by RR1,326 million to RR3,360 million in the three month period ended March 31, 2011 from RR4,686 million in the three month period ended March 31, 2010. The increase in net exchange gains resulted from higher fluctuation of U.S. dollar exchange rate against Ruble in the three month ended March 31, 2011 in comparison with the same period of the prior year.

Interest income decreased by 47% to RR4,042 million in the three month period ended March 31, 2011 from RR7,560 million in the three month period ended March 31, 2010, mainly due to deconsolidation of ZAO Gazenergoprombank in the second quarter 2010.

Interest expense increased by 18% to RR16,918 million in the three month period ended March 31, 2011 from RR14,279 million in the three month period ended March 31, 2010, mainly due to the increased share of borrowings, for which interest is expensed.

Share of net income of associated undertakings and jointly controlled entities

Share of net income of associated undertakings and jointly controlled entities increased by RR10,290 million, or 36%, to RR38,519 million in the three month ended March 31, 2011 compared to RR28,229 million in the same period of the prior year. The increase of the Group's share of net income of associated undertakings and jointly controlled entities in the three month period ended March 31, 2011 relates mainly to the increase in net income of Gazprombank Group and the increase in net income of Sakhalin Energy Investment Company Ltd.

due to the increase of liquefied natural gas sales in the three month period ended March 31, 2011 compared to the same period of the prior year.

Profit tax

Total profit tax expense increased by RR27,719 million, or 33%, to RR112,566 million in the three month period ended March 31, 2011 compared to RR84,847 million in the three month period ended March 31, 2010. The effective profit tax rate was 19.0% and 20.1% in the three month periods ended March 31, 2011 and 2010, respectively. Change of the effective profit tax rate mainly resulted from a relative decrease of non-deductable expenses and increase of non-taxable share of net income of associated undertakings and jointly controlled entities in the three month period ended March 31, 2011 compared to the same period of the prior year.

Profit for the period attributable to owners of OAO Gazprom

As a result of the factors discussed above, our profit for the period attributable to owners of OAO Gazprom increased by RR143,016 million or 44%, from RR324,953 million in the three month period ended March 31, 2010 to RR467,969 million in the three month period ended March 31, 2011.

Profit for the period attributable to non-controlling interest

Profit for the period attributable to non-controlling interest decreased by RR1,365 million or 11% to RR10,531 million in the three month period ended March 31, 2011 compared to RR11,896 million in the three month period ended March 31, 2010.

Year ended December 31, 2010 versus Year ended December 31, 2009

In relation to the discussion with respect to the year ended December 31, 2010 against the year ended December 31, 2009 in this section of this Prospectus, the financial information presented for the year ended December 31, 2009 has been extracted from our consolidated financial statements as of and for the year ended December 31, 2010 (the "Unaudited Revised 2009 Financial Information"). In 2010, the Group finalised the assessment of the fair values of the assets and liabilities acquired in the business combinations that had occurred in 2009. In accordance with IFRS 3 "Business Combinations" management revised the preliminary assessment made as of the acquisition date and amended some measurements of assets and liabilities as of December 31, 2009. As a result, the Unaudited Revised 2009 Financial Information is different to the corresponding 2009 financial information that is included in the financial statements for the year ended December 31, 2009 (the "Audited 2009 Financial Information"). The Unaudited Revised 2009 Financial Information is not covered by the audit report, issued by ZAO Pricewaterhouse Coopers, included in the financial statements for the year ended December 31, 2010.

Sales

The following table sets out our volumes and realised prices for the years ended December 31, 2010 and 2009.

	Year ended December 31, ⁽¹⁾		Year ended December 31, ⁽²⁾
	2010	2009	2009
	(RR million unless indicated otherwise)		
	Audited	Unaudited Revised	Audited
Sales of gas			
<i>Europe and Other Countries</i>			
Gross sales ⁽³⁾	1,357,852	1,396,415	1,393,958
Excise tax	-	(220)	(220)
Customs duties	(258,627)	(290,742)	(290,742)
Net sales	1,099,225	1,105,453	1,102,996
Volumes in bcm	148.1	148.3	152.8
Gross average price, U.S.\$ per mcm ⁽⁴⁾ (including excise tax and customs duties) ⁽⁵⁾	301.8	296.7	287.5
Gross average price, RR per mcm ⁽²⁾ (including excise tax and customs duties)	9,166.6	9,413.5	9,120.3
<i>FSU (Former Soviet Union)</i>			
Gross sales (net of value added tax (VAT))	493,806	363,400	363,400
Excise	-	-	-
Customs duties	(43,669)	(53,471)	(53,471)
Net sales	450,137	309,929	309,929
Volumes in bcm	70.2	56.7	56.7
Gross average price, U.S.\$ per mcm ⁽⁴⁾ (including excise tax and customs duties, net of VAT) ⁽⁵⁾	231.7	202.1	202.1
Gross average price, RR per mcm ⁽⁴⁾ (including excise tax and customs duties, net of VAT)	7,039.0	6,411.1	6,411.1
<i>Russia</i>			
Gross sales (net of VAT)	636,843	503,121	503,121
Excise	-	-	-
Net sales	636,843	503,121	503,121
Volumes in bcm	277.3	273.5	273.5
Gross average price, RR per mcm ⁽⁴⁾ (including excise tax, net of VAT)	2,296.8	1,839.5	1,839.5
<i>Total sales of gas</i>			
Gross sales (net of VAT)	2,488,501	2,262,936	2,260,479
Excise tax	-	(220)	(220)
Customs duties	(302,296)	(344,213)	(344,213)
Net sales	2,186,205	1,918,503	1,916,046
Volumes in bcm	495.6	478.5	483.0
Net sales of refined products (net of excise tax, VAT and customs duties)	709,062	540,505	540,505
Net sales of electricity and heat energy (net of VAT)	288,655	192,826	195,040
Net sales of crude oil and gas condensate (net of excise tax, VAT and customs duties)	196,074	176,403	176,403
Gas transportation net sales (net of VAT)	92,631	65,563	65,563
Other revenues (net of VAT)	124,427	97,201	97,414
Total sales (net of excise tax, VAT and customs duties)	3,597,054	2,991,001	2,990,971

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.
- (3) VAT is not charged on sales to Europe and Other Countries.
- (4) One mcm is equivalent to 35.316 thousand cubic feet.
- (5) Calculated on the basis of average rate.

Total sales (net of excise tax, VAT and custom duties) increased by RR606,053 million, or 20%, to RR3,597,054 million in the year ended December 31, 2010 compared to the year ended December 31, 2009.

Net sales of gas accounted for 61% and 64% of total net sales in the year ended December 31, 2010 and 2009, respectively.

Net sales of gas increased from RR1,918,503 million in the year ended December 31, 2009 to RR2,186,205 million in the year ended December 31, 2010, or by 14%.

Net sales of gas to Europe and other countries decreased by RR6,228 million or 1%, to RR1,099,225 million in the year ended December 31, 2010 as compared to the year ended December 31, 2009. This mainly results from the decrease of gross average realised prices in RR terms (including excise tax and custom duties) by 3%.

Net sales of gas to FSU countries increased by RR140,208 million, or 45%, to RR450,137 million in the year ended December 31, 2010 as compared to the year ended December 31, 2009. This increase was mainly due to increase in volumes of gas sold to FSU countries by 24% in the year ended December 31, 2010 compared to the year ended December 31, 2009, and increase in gross average RR price (including custom duties, net of VAT) by 10% in the year ended December 31, 2010 compared to the year ended December 31, 2009.

Net sales of gas in the Russian Federation increased in the year ended December 31, 2010 compared to the year ended December 31, 2009, by RR133,722 million, or 27%, to RR636,843 million. This increase was mainly due to 25% increase in the gross average gas sale price regulated by the FTS, and 1% increase in the volumes of gas sold.

Net sales of refined products (net of excise tax, VAT and custom duties) increased by RR168,557 million, or 31%, to RR709,062 million in the year ended December 31, 2010 in comparison with RR540,505 million in the year ended December 31, 2009. The increase mainly resulted from increase of world prices for refined products and increase in volumes sold by the Group as well as from the acquisitions of subsidiaries by the Gazprom Neft Group in 2009. In the years ended December 31, 2010 and 2009 the Gazprom Neft Group's sales comprised 84% and 85% of the total amount of our net sales of refined products, respectively.

Net sales of electric and heat energy (net of VAT) increased by RR95,829 million, or 50%, to RR288,655 million in the year ended December 31, 2010 as compared to the year ended December 31, 2009. RR49,687 million of the total increase related to consolidation of TGC-1 effective December 31, 2009 when control over that entity was established. Another reason for the total increase in the Group's electric and heat energy net sales was an increase in electric and heat energy sales of Mosenergo, WGC-2 and WGC-6 by RR45,487 million, or 24%.

Net sales of crude oil and gas condensate (net of excise tax, VAT and custom duties) increased by RR19,671 million, or 11%, to RR196,074 million in the year ended December 31, 2010 as compared to RR176,403 million in the year ended December 31, 2009. The increase was mainly caused by increase in price for oil and gas condensate as well as by increase in volumes of gas condensate sold in the year ended December 31, 2010 as compared to the year ended December 31, 2009. Sales of crude oil included in net sales of crude oil and gas condensate (net of excise tax, VAT and custom duties), amounted to RR169,193 million and RR157,874 million in the years ended December 31, 2010 and 2009, respectively.

Gas transportation net sales (net of VAT) increased by RR27,068 million, or 41%, to RR92,631 million in the year ended December 31, 2010 from RR65,563 million in the year ended December 31, 2009. The increase was mainly caused by increase in gas volumes transported for independent gas suppliers.

Other revenues increased by RR27,226 million, or 28%, to RR124,427 million in the year ended December 31, 2010 compared to RR97,201 million in the year ended December 31, 2009.

Net gain from trading activity increased by RR2,085 million, or 50%, to RR6,256 million in the year ended December 31, 2010 in comparison with the year ended December 31, 2009. This growth is due to increase of trading operations by Gazprom Marketing and Trading Ltd., a subsidiary to the Group, under the terms of gas sales contracts.

Operating expenses

Operating expenses increased by 17% in the year ended December 31, 2010 to RR2,440,777 million from RR2,092,832 million in the year ended December 31, 2009. Operating expenses as a percentage of sales decreased from 70% in the year ended December 31, 2009 to 68% in the year ended December 31, 2010. The table below presents a breakdown of operating expenses in each period:

	Year ended December 31, ⁽¹⁾		Year ended December 31, ⁽²⁾	
	2010	2009	2009	
	(RR million)	(% of net sales)	(RR million)	(% of net sales)
	Audited		Unaudited Revised	
Purchased oil and gas.....	616,407	17%	607,310	20%
Staff costs.....	342,846	10%	255,977	9%
Taxes other than on income.....	289,978	8%	244,748	8%
Transit of gas, oil and refined products.....	260,776	7%	220,961	8%
Depreciation.....	243,615	7%	221,197	7%
Repairs and maintenance.....	159,894	4%	138,779	5%
Materials.....	83,043	2%	83,576	3%
Cost of goods for resale, including refined products.....	70,072	2%	52,203	2%
Electricity and heating expenses.....	60,386	2%	43,375	1%
Research and development expenses.....	24,158	1%	28,524	1%
Social expenses.....	25,635	1%	20,639	1%
Rental expenses.....	20,019	1%	19,912	1%
Insurance expenses.....	15,685	0%	16,315	1%
Exchange rate differences on operating items.....	12,876	0%	(44,223)	(1%)
Processing services.....	8,442	0%	9,744	0%
Transportation services.....	27,130	1%	17,952	0%
Other operating expenses.....	179,815	5%	155,843	4%
Total operating expenses.....	2,440,777	68%	2,092,832	70%

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.

Purchased oil and gas

Cost of purchased gas and oil increased by 1% to RR616,407 million in the year ended December 31, 2010 from RR607,310 million in the year ended December 31, 2009. The cost of purchased gas decreased by RR41,590 million or 9% and amounted to RR401,725 million for the year ended December 31, 2010 which is mainly explained by decrease in prices and volume of gas purchased outside the Russian Federation. The cost of purchased oil increased by RR50,687 million, or 31%, and amounted to RR214,682 million in the year ended December 31, 2010 in comparison with RR163,995 million in the year ended December 31, 2009 due to increase of world oil prices.

Staff costs

Staff costs increased by 34% to RR342,846 million in the year ended December 31, 2010 from RR255,977 million in the year ended December 31, 2009. Staff costs included costs for pension expense in the amount of RR64,990 million and RR20,486 million for 2010 and 2009, respectively. The increase in staff costs (without pension expense) resulted mainly from increase in the average salary. The increase was also due to consolidation of TGC-1 effective December 31, 2009 when control over that entity was established; and due to acquisitions of new assets by the Gazprom Neft Group in 2009. Increase in pension expense related primarily to

unfunded post-retirement benefits such as funeral payment, health improvement, medical aid and other types of financial support to pensioners.

Taxes other than on income

Taxes other than on income consist of:

	Year ended December 31,⁽¹⁾		Year ended December 31,⁽²⁾
	2010	2009	2009
		(RR million)	
	Audited	Unaudited Revised	Audited
Natural resources production tax	170,455	144,908	144,908
Excise tax	62,338	53,024	53,024
Property tax	42,034	36,034	36,034
Other taxes	15,151	10,782	10,782
Taxes other than on income	289,978	244,748	244,748

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.

The natural resources production tax increased by 18% to RR170,455 million in the year ended December 31, 2010 from RR144,908 million in the year ended December 31, 2009. The increase mainly relates to the production of crude oil and was caused by the increase of world oil prices that in turn resulted in the increase of tax rate.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 18% to RR260,776 million in the year ended December 31, 2010 from RR220,961 million in the year ended December 31, 2009. This growth mainly relates to increased costs of gas transportation through Ukraine.

Depreciation

Depreciation increased by 10% or RR22,418 million to RR243,615 million in the year ended December 31, 2010 from RR221,197 million in the year ended December 31, 2009.

The increase primary relates to the growth in the fixed asset base.

Repairs and maintenance

Cost of repairs and maintenance increased by 15% to RR159,894 million in year ended December 31, 2010 from RR138,779 million in the year ended December 31, 2009. This increase was mainly caused by increase in volume of repair services rendered by third parties to the Group in the year ended December 31, 2010.

Materials

Cost of materials decreased by 1% to RR83,043 million in the year ended December 31, 2010 from RR83,576 million in the year ended December 31, 2009. This decrease was partially compensated by the increase in cost of fuel in operating segment "Electric and heat energy generation and sales" as well as by

increase in costs resulting from the changes in the Group's procurement logistics as related to the capital repair activities.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased by 34% to RR70,072 million in the year ended December 31, 2010 from RR52,203 million in the year ended December 31, 2009. The increase is mainly due to the increase in prices for oil and oil products.

Electricity and heating expenses

Electricity and heating expenses increased by 39% to RR60,386 million in the year ended December 31, 2010 from RR43,375 million in the year ended December 31, 2009. The increase mainly resulted from increase in electricity consumption, growth of electricity tariffs and consolidation of OAO TGC-1 effective December 31, 2009.

Exchange rate differences on operating items

Exchange rate differences on operating items in the year ended December 31, 2010 amounted to a net loss of RR12,876 million compared to net gain exchange rate differences on operating items in the amount of RR44,223 million in the year ended December 31, 2009. The change was primarily driven by depreciation of RUR against USD by 1% and by appreciation of RUR against EUR by 7% in the year ended December 31, 2010 comparing to depreciation of RUR against USD and EUR by 3% and 5%, respectively, in the year ended December 31, 2009.

Other operating expenses

Other operating expenses increased by 15% to RR179,815 million in the year ended December 31, 2010 from RR155,843 million in the year ended December 31, 2009. Other expenses include heat energy transmission expenses, bank charges, security services, legal and consulting services, advertisement services, gas storage services, charity and financial aid and others.

Impairment provision and other provisions

In the years ended December 31, 2010 and 2009 the Group has assessed whether there were any indicators that non-current assets of the Group might be impaired. No such indicators were identified.

Included in the impairment and other provisions are provisions for short-term and long-term accounts receivable in the amount of RR48,448 million and RR33,586 million for the years ended December 31, 2010 and 2009 respectively.

Operating profit

As a result of the factors discussed above, our operating profit increased by RR256,910 million, or 30%, to RR1,113,822 million in the year ended December 31, 2010 from RR856,912 million in the year ended December 31, 2009. Our operating profit margin increased from 29% in the year ended December 31, 2009 to 31% in the year ended December 31, 2010.

Purchase of non-controlling interest in OAO Gazprom Neft

In April 2009 the Group purchased an additional 20% interest in Gazprom Neft for U.S.\$4.1 billion (approximately RR138 billion) from ENI S.p.A. As a result of this transaction, the Group increased its interest

in Gazprom Neft to 95.68%. The difference between the carrying value of the acquired non-controlling interest (approximately RR152,392 million) and purchase consideration was recognised as a gain in the amount of RR13,865 million in the consolidated statement of comprehensive income.

Disposal of interest in OAO Novatek

In December 2010 the Group sold a portion of the associated undertaking (total carrying value of RR84,978 million as of the date sold) representing a 9.4% interest in Novatek to a party unrelated to the Group for RR57,462 million paid in cash. As a result of this transaction the Group has ceased to exercise significant influence over the business activities of Novatek. Therefore the remaining 9.99% interest was classified as long-term available-for-sale financial asset and was recognised at fair value in the amount of RR104,484 million at the date of disposal.

In the consolidated statement of comprehensive income for the year ended December 31, 2010 the Group recognised a gain of RR77,375 million representing the difference between the sum of fair value of the remaining 9.99% interest at the date of transaction, cash proceeds from disposal of 9.4% interest and accumulated net gain previously recognised in other comprehensive income in relation to this associated undertaking, and the carrying amount of total 19.39% interest as at transaction date.

Gain from transaction for asset swap with E.ON Ruhrgas AG

On October 30, 2009 the Group closed the swap agreement with E.ON Ruhrgas AG. As a result thereof, the Group swapped its 25% share in Severneftegazprom less three ordinary shares, three preference shares without voting right of Severneftegazprom and a preference share in ZAO Gazprom YRGM Development for a 49% interest in ZAO Gerosgaz and a cash compensation of euro 67 million. OAO Severneftegazprom holds the license for the development of Yuzhno-Russkoe oil and gas field in Siberia. ZAO Gerosgaz is the company holding the investment in 2.93% shares of OAO Gazprom. As a result of the swap the Group recognised the gain on disposal of interest in OAO Severneftegazprom and ZAO Gazprom YRGM Development in the consolidated statement of comprehensive income in the amount of RR105,470, being the difference between carrying amount of transferred assets and respective fair value of ZAO Gerosgaz shares acquired. Treasury shares were recognised as deduction from equity at market value as at the date of the swap closure.

Finance income and expenses

	Year ended December 31,⁽¹⁾		Year ended December 31,⁽²⁾
	2010	2009	2009
		(RR million)	
	Audited	Unaudited Revised	Audited
Exchange gains.....	150,384	338,976	338,976
Exchange losses.....	(130,433)	(367,320)	(367,320)
Net exchange loss.....	19,951	(28,344)	(28,344)
Interest income.....	20,692	36,762	36,762
Interest expense.....	(38,714)	(74,167)	(74,167)
Gains on and extinguishment of restructured liabilities.....	765	61	61
Net finance expense.....	2,694	(65,688)	(65,688)

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.

Exchange gains decreased by RR188,592 million to RR150,384 million in the year ended December 31, 2010, compared to RR338,976 million in the year ended December 31, 2009. Exchange losses decreased by RR236,887 million to RR130,433 million in the year ended December 31, 2010 from RR367,320 million in the

year ended December 31, 2009. The decrease in exchange gains and exchange losses resulted from a lower fluctuation of USD and EUR exchange rates against RR in the year ended December 31, 2010 in comparison with the year ended December 31, 2009.

Interest income decreased by 44% to RR20,692 million in the year ended December 31, 2010 from RR36,762 million in the year ended December 31, 2009, mainly due to change of presentation of the Group's banking subsidiaries in the first half of 2010.

Interest expense decreased by 48% to RR38,714 million in the year ended December 31, 2010 from RR74,167 million in the year ended December 31, 2009, mainly due to decrease in average borrowings balance during the year ended December 31, 2010 in comparison with the prior year.

Share of net income of associated undertakings and jointly controlled entities

Share of net income of associated undertakings and jointly controlled entities increased by RR13,963 million, or 22%, to RR76,520 million in the year ended December 31, 2010 compared to RR62,557 million in the year ended December 31, 2009. The increase of the Group's share of net income of associated undertakings and jointly controlled entities in the year ended December 31, 2010 relates mainly to increase in net income of Sakhalin Energy Investment Company Ltd. due to increase in sales of hydrocarbons.

Profit tax

Total profit tax expense increased by RR90,068 million, or 49%, to RR275,710 million for the year ended December 31, 2010 compared to RR185,642 million for the year ended December 31, 2009. The effective profit tax rate was 21.6% and 19.0% in the years ended December 31, 2010 and 2009, respectively. The change in the effective tax rate results mainly from the effect of one-time non-taxable income related to the purchase of an additional interest in Gazprom Neft and the gain from swap of assets with E.ON Ruhrgas in 2009 and in 2010 to effect of the disposal of interest in Novatek.

Profit for the period attributable to owners of Gazprom

As a result of the factors discussed above, our profit for the period attributable to owners of Gazprom increased by RR188,972 million, or 24%, from RR779,585 million in the year ended December 31, 2009 to RR968,557 million in the year ended December 31, 2010.

Profit for the period attributable to non-controlling interest

Profit for the period attributable to non-controlling interest increased by RR15,228 million, or 107%, to RR29,436 million in the year ended December 31, 2010 compared to RR14,208 million in the year ended December 31, 2009. Increase is mainly related to the increase of profit of OAO Severneftegazprom and OAO Mosenergo in the year ended December 31, 2010 compared to the year ended December 31, 2009.

Year ended December 31, 2009 versus year ended December 31, 2008

In relation to the discussion with respect to the year ended December 31, 2009 against the year ended December 31, 2008 in this section of this Prospectus, the financial information presented for the year ended December 31, 2008 has been extracted from our consolidated financial statements as of and for the year ended December 31, 2009 (the "Unaudited Revised 2008 Financial Information"). In 2009, the Group changed the presentation of sales and purchases associated with the contracts entered into for trading purposes which are now presented in a separate line as Net gain from trading activity. Prior to 2009, sales and purchases associated with such contracts used to be presented on a gross basis in sales and operating expenses. The presentation of 2008 comparative financial information has been changed to be consistent with the net presentation. As a result the Unaudited Revised 2008 Financial Information is different to the corresponding 2008 financial information that is included in the financial statements for the year ended December 31, 2008 (the "Audited 2008 Financial

Information"). The Unaudited Revised 2008 Financial Information is not covered by the audit report, issued by ZAO Pricewaterhouse Coopers, included in the financial statements for the year ended December 31, 2009.

The presentation of financial information in the analysis for the year ended December 31, 2009 against the year ended December 31, 2008 is presented as issued and has not been amended to give effect to the change in 2009 in the presentation of sales and purchases associated with contracts entered into for trading purposes. In 2009, the Group changed the presentation of these sales and purchases which are now presented on a separate line as "Net gain from trading activity". Sales and purchases associated with such contracts are presented on a gross basis in sales and operating expenses in the analysis below.

Sales

The following table sets out our volumes and realised prices for the year ended December 31, 2009 and 2008.

	Year ended December 31, ⁽¹⁾		Year ended December 31, ⁽²⁾
	2009	2008	2008
	(RR million unless indicated otherwise)		
	Audited	Unaudited Revised	Audited
Sales of gas			
<i>Europe and Other Countries</i>			
Gross sales ⁽³⁾	1,393,958	1,697,078	1,866,933
Excise tax.....	(220)	(81)	(81)
Customs duties.....	(290,742)	(436,352)	(436,352)
Net sales.....	1,102,996	1,260,645	1,430,500
Volumes in bcm.....	152.8	167.6	184.4
Gross average price, U.S.\$ per mcm ⁽⁴⁾ (including excise tax and customs duties) ⁽⁵⁾	287.5	407.4	407.3
Gross average price, RR per mcm ⁽⁴⁾ (including excise tax and customs duties).....	9,120.3	10,125.4	10,123.6
<i>FSU (Former Soviet Union)</i>			
Gross sales (net of value added tax (VAT)).....	363,400	381,902	381,902
Excise.....	—	—	—
Customs duties.....	(53,471)	(25,388)	(25,388)
Net sales.....	309,929	356,514	356,514
Volumes in bcm.....	56.7	96.5	96.5
Gross average price, U.S.\$ per mcm ⁽⁴⁾ (including excise tax and customs duties, net of VAT) ⁽⁵⁾	202.1	159.2	159.2
Gross average price, RR per mcm ⁽⁴⁾ (including excise tax and customs duties, net of VAT).....	6,411.1	3,956.9	3,956.9
<i>Russia</i>			
Gross sales (net of VAT).....	503,121	479,387	479,387
Excise.....	—	—	—
Net sales.....	503,121	479,387	479,387
Volumes in bcm.....	273.5	292.2	292.2
Gross average price, RR per mcm ⁽⁴⁾ (including excise tax, net of VAT).....	1,839.5	1,640.6	1,640.6
<i>Total sales of gas</i>			
Gross sales (net of VAT).....	2,260,479	2,558,367	2,728,222
Excise tax.....	(220)	(81)	(81)
Customs duties.....	(344,213)	(461,740)	(461,740)
Net sales.....	1,916,046	2,096,546	2,266,401
Volumes in bcm.....	483.0	556.3	573.1
Net sales of refined products (net of excise tax, VAT and customs duties).....	540,505	652,956	652,956
Net sales of electricity and heat energy (net of VAT).....	195,040	134,335	197,232
Net sales of crude oil and gas condensate (net of excise tax, VAT and customs duties).....	176,403	214,955	214,955
Gas transportation net sales (net of VAT).....	65,563	70,685	70,685
Other revenues (net of VAT).....	97,414	116,009	116,731
Total sales (net of excise tax, VAT and customs duties).....	2,990,971	3,285,486	3,518,960

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS. The Unaudited Revised 2008 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2008 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with IFRS.
- (3) VAT is not charged on sales to Europe and Other Countries.
- (4) One mcm is equivalent to 35.316 thousand cubic feet.
- (5) Calculated on the basis of average rate.

Total sales (net of excise tax, VAT and customs duties) decreased by RR294,515 million, or 9%, to RR2,990,971 million in the year ended December 31, 2009 compared to RR3,285,486 million for the year ended December 31, 2008.

Net sales of gas accounted for 64% of total net sales in each of the years ended December 31, 2009 and 2008.

Net sales of gas decreased by 9% from RR2,096,546 million in the year ended December 31, 2008 to RR1,916,046 million in the year ended December 31, 2009.

Net sales of gas to Europe and Other Countries decreased in the year ended December 31, 2009 compared to the year ended December 31, 2008, by RR157,649 million, or 13%, to RR1,102,996 million. Gross average ruble price (including excise tax and customs duties) decreased by 10% for the year ended December 31, 2009, compared to the year ended December 31, 2008. At the same time volumes for the year ended December 31, 2009 decreased by 9% compared to the year ended December 31, 2008.

Net sales of gas to FSU countries decreased in the year ended December 31, 2009 compared to the year ended December 31, 2008, by RR46,585 million, or 13%, to RR309,929 million. This decrease was mainly due to a 41% decrease in volumes, primarily as a result of reduction in demand, which was partially offset by increase in prices in ruble terms (net of excise tax, VAT and customs duties) by 48%, as compared to the year ended December 31, 2008.

Net sales of gas in the domestic market increased by RR23,734 million, or 5%, in the year ended December 31, 2009 compared to the year ended December 31, 2008. This increase was mainly due to the increase in average domestic gas prices set by the FTS by 12%, which was partly offset by 6% decrease in sales volumes as compared to the year ended December 31, 2008.

Sales of refined products (net of excise tax, VAT and customs duties) decreased by RR112,451 million, or 17%, to RR540,505 million in the year ended December 31, 2009 compared to RR652,956 million in the year ended December 31, 2008. The decrease mainly resulted from the deconsolidation of Sibur Group since the second half of 2008 and the decrease in global prices for refined products in 2009 compared to 2008. In 2009 and 2008 the Gazprom Neft Group's sales comprised 85% and 68% of the total amount of refined products sales of the Gazprom Group, respectively.

Sales of electricity and heat energy (net of VAT) increased by RR60,705 million, or 45% in the year ended December 31, 2009 from RR134,335 million in the year ended December 31, 2008. This increase was mainly due to sales by OAO OGK-2 and OAO OGK-6, which were consolidated in the second half of 2008, and also due to the sales of Mosenergo.

Sales of crude oil and gas condensate (net of excise tax, customs duties and VAT) decreased by RR38,552 million, or 18%, to RR176,403 million in the year ended December 31, 2009 compared to RR214,955 million in the year ended December 31, 2008. The decrease was mainly caused by a decrease in oil

price. Sales of crude oil included in net sales of crude oil and gas condensate (net of customs duties and VAT), amounted to RR157,874 million and RR191,378 million in the year ended December 31, 2009 and 2008, respectively.

Gas transportation sales decreased by RR5,122 million, or 7%, to RR65,563 million in the year ended December 31, 2009 from RR70,685 million in the year ended December 31, 2008. The decrease is mainly explained by decrease of Turkmen and Russian gas transportation through RosUkrEnergo AG to the Ukraine in 2009, as compared to 2008.

Other revenues decreased by RR18,595 million, or 16%, to RR97,414 million in the year ended December 31, 2009 compared to RR116,009 million in the year ended December 31, 2008.

Starting from 2009, revenues generated by trading activities are reported as net figures, reflecting realised gross margins. Trading activities are mainly managed by Gazprom Marketing and Trading Ltd., a subsidiary of the Group, and relate partly to gas trading and power and emission rights trading activities. The effect of this change on 2008 sales was RR233,474 and had no effect on operating income and cash flows.

Operating expenses

Operating expenses increased by 9% in the year ended December 31, 2009 to RR2,096,926 million from RR1,930,437 million in the year ended December 31, 2008. Operating expenses as a percentage of sales increased from 59% in the year ended December 31, 2008 to 70% in the year ended December 31, 2009. This increase was primarily due to decrease of sales together with the increase of operating expenses in the year ended December 31, 2009 as compared to the year ended December 31, 2008. The table below presents a breakdown of operating expenses in each period:

	Year ended December 31, ⁽¹⁾				Year ended December 31, ⁽²⁾	
	2009		2008		2008	
	(RR million)	(% of net sales)	(RR million)	(% of net sales)	(RR million)	(% of net sales)
	Audited		Unaudited Revised		Audited	
Purchased oil and gas	606,435	20%	528,664	16%	696,274	20%
Staff costs	255,977	9%	240,607	7%	240,607	7%
Taxes other than on income	244,748	8%	258,971	8%	258,971	7%
Transit of gas, oil and refined products	238,327	8%	185,269	6%	185,269	5%
Depreciation	221,197	7%	195,016	6%	195,016	6%
Repairs and maintenance	138,779	5%	152,234	5%	152,234	4%
Materials	83,576	3%	90,722	3%	90,722	3%
Cost of goods for resale, including refined products	54,562	2%	71,933	2%	132,801	4%
Electricity and heating expenses	43,375	1%	48,691	1%	48,691	1%
Research and development expenses	28,524	1%	19,952	1%	19,952	1%
Social expenses	20,639	1%	18,668	1%	18,668	1%
Rental expenses	19,912	1%	15,178	0%	15,178	0%
Insurance expenses	16,315	1%	14,637	0%	14,637	0%
Processing services	9,744	0%	10,055	0%	10,055	0%
Transportation services	7,309	0%	7,485	0%	7,485	0%
Other operating expenses	107,507	4%	72,355	2%	73,130	2%
Total operating expenses	2,096,926	70%	1,930,437	59%	2,159,690	61%

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS. The Unaudited Revised 2008 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2008 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with IFRS.

Purchased oil and gas

Cost of purchased oil and gas increased by 15% to RR606,435 million in the year ended December 31, 2009 from RR528,664 million in the year ended December 31, 2008. The increase primarily relates to the increase in the purchase price of gas purchased from central Asian suppliers. The cost of purchased oil included in the cost of purchased oil and gas increased by RR6,401 million, or 4%, and amounted to RR163,995 million in 2009 in comparison with RR157,594 million in 2008 due to increase in volumes of purchased oil that was partly offset by the decrease of global oil prices in 2009 compared to 2008.

Staff costs

Staff costs increased by 6% to RR255,977 million in the year ended December 31, 2009 from RR240,607 million in the year ended December 31, 2008. The increase is due mainly to the growth of average base salaries.

Taxes other than on income

Taxes other than on income consist of:

	Year ended December 31,⁽¹⁾		Year ended December 31,⁽²⁾
	2009	2008	2008
		(RR million)	
	Audited	Unaudited Revised	Audited
Natural resources production tax	144,908	188,494	188,494
Excise tax	53,024	29,309	—
Property tax	36,034	27,781	27,781
Other taxes	10,782	13,387	42,696
Taxes other than on income	244,748	258,971	258,971

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS. The Unaudited Revised 2008 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2008 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with IFRS.

Natural resources production tax decreased by 23% to RR144,908 million in the year ended 31 December, 2009 from RR188,494 million in the year ended 31 December, 2008. The decrease mainly related to crude oil production activity and was caused by a decrease in average global oil prices, which resulted in a lower effective production tax rate.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 29% to RR238,327 million in the year ended December 31, 2009 from RR185,269 million in the year ended December 31, 2008. This increase mainly relates to the increased volumes of gas transported through Kazakhstan and Uzbekistan in 2009 in comparison with 2008.

Depreciation

Depreciation increased by 13% to RR221,197 million in the year ended December 31, 2009 from RR195,016 million in the year ended December 31, 2008. The increase primarily relates to growth in our fixed assets base.

Repairs and maintenance

Cost of repairs and maintenance decreased by 9% to RR138,779 million in year ended December 31, 2009 from RR152,234 million in the year ended December 31, 2008. The overall decrease in repair and maintenance expenses is explained by the decrease of volume of capital repairs and maintenance performed by contractors for production entities of the Group.

Materials

Cost of materials decreased by 8% to RR83,576 million in the year ended December 31, 2009 from RR90,722 million in the year ended December 31, 2008. The decrease was primarily caused by a lower amount of materials used for repair purposes and deconsolidation of the Sibur Group from the second half of 2008 and was partly offset by an increase caused by consolidation of OAO OGK-2 and OAO OGK 6.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products decreased by 24% to RR54,562 million in the year ended December 31, 2009 from RR71,933 million in the year ended December 31, 2008. The decrease was mainly caused by the overall market decrease in prices of oil and refined products in 2009.

Electricity and heating expenses

Electricity and heating expenses decreased by 11% to RR43,375 million in the year ended December 31, 2009 from RR48,691 million in the year ended December 31, 2008. The decrease mainly resulted from the deconsolidation of the Sibur Group starting in the second half of 2008.

Other operating expenses

Other operating expenses increased by RR35,152 million, or 49% to RR107,507 million in the year ended December 31, 2009 from RR72,355 million in the year ended December 31, 2008.

Other operating expenses increased mainly due to decrease of gain from revaluation of assets and liabilities (excluding loans and borrowings) denominated in foreign currency in the amount of RR7,059 million and also due to increase of expenses for legal and consulting services, banking services and security.

Impairment provision and other provisions

In 2008 the Group conducted an impairment test of its property, plant and equipment, goodwill, investments in associated undertakings and jointly controlled entities and other assets when there were indicators that these assets may be impaired.

As a results of impairment test in 2008 the Group recognised a total impairment loss of RR51,031 million for power generating assets, including goodwill on the acquisition of OGK-2 and OGK-6. The impairments were primarily triggered by the increase in discount rates, projected reduction in electricity consumption and expected oil and electricity prices.

In 2009 the Group has assessed whether were any indication that the Group's assets may be impaired. No such indications were identified in 2009 that might impact the recoverable amount of such assets.

Included in the impairment and other provisions are provisions for short-term and long-term accounts receivable in the amount of RR33,586 million and RR42,057 million for 2009 and 2008 respectively.

Operating profit

As a result of the factors discussed above, our operating profit decreased by RR403,394 million, or 32%, to RR856,912 million in the year ended December 31, 2009 from RR1,260,306 million in the year ended December 31, 2008. Our operating profit margin decreased from 38% in the year ended December 31, 2008 to 29% in the year ended December 31, 2009.

Purchase of non-controlling interest in OAO Gazprom Neft

In April 2009 the Group purchased an additional 20% interest in Gazprom Neft for U.S.\$4.1 billion (approximately RR138 billion) from ENI S.p.A. As a result of this transaction, the Group has increased its interest in Gazprom Neft to 95.68%. The difference between the carrying value of the acquired non-controlling interest in the amount of RR152,392 million and purchase consideration was recognised as a gain in the amount of RR13,865 million in the consolidated statement of comprehensive income.

Loss from change in fair value of call option

In April 2007, ENI S.p.A. offered the Group an option to acquire its 20% interest in Gazprom Neft by April 2009, at a price of U.S.\$4.1 billion. For the year ended December 31, 2008 a loss from change in fair value of the option in the amount of RR50,738 million was recognised in the statement of comprehensive income as a result of decrease in market quotations of Gazprom Neft shares.

Gain from swap of assets transaction

On October 30, 2009 the Group closed an asset swap agreement with E.ON Ruhrgas. As a result thereof, the Group swapped its 25% share in Severneftegazprom less three ordinary shares, three preference shares without voting rights of Severneftegazprom and a preference share in ZAO Gazprom YRGM Development for a 49% interest in ZAO Gerosgaz and cash compensation of € 67 million. As a result of the swap the Group recognised gain on disposal of non-controlling interest in Severneftegazprom and ZAO Gazprom YRGM Development in consolidated statement of comprehensive income in the amount of RR105,470 million, being the difference between carrying amount of transferred assets and respective fair value of ZAO Gerosgaz shares acquired. Treasury shares were recognised as deduction from equity at market value as at the closing date of the swap.

Finance income and expenses

	Year ended December 31,⁽¹⁾		Year ended
	2009	2008	December 31,⁽²⁾
			2008
		(RR million)	
	Audited	Unaudited	Audited
		Revised	
Exchange gains	338,976	118,746	118,746
Exchange losses	(367,320)	(281,269)	(281,269)
Net exchange loss	(28,344)	(162,523)	(162,523)
Interest income	36,762	46,822	46,822
Interest expense	(74,167)	(59,910)	(59,910)
Gains on and extinguishment of restructured liabilities	61	35	35
Net finance expense	(65,688)	(175,576)	(175,576)

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS. The Unaudited Revised 2008 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2008 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with IFRS.

Exchange gains increased by 185% to RR338,976 million in the year ended December 31, 2009, compared to RR118,746 million in the year ended December 31, 2008. Exchange losses increased by 31% to RR367,320 million in the year ended December 31, 2009 from RR281,269 million in the year ended December 31, 2008. The net exchange loss of RR28,344 million in the year ended December 31, 2009 compared to net exchange loss of RR162,523 million in the year ended December 31, 2008 decreased by RR134,179 million. The increase in exchange gains and exchange losses is explained by higher fluctuation of rate of the U.S. dollar and the euro against ruble in 2009 in comparison with 2008, and a general appreciation of the U.S. dollar and the euro against ruble in both 2009 and 2008.

Interest income decreased by 21% to RR36,762 million in the year ended December 31, 2009 from RR46,822 million in the year ended December 31, 2008, mainly caused by deconsolidation of Gazprombank starting second half 2008, whose main activities were providing credits and loans to individuals and entities.

Interest expense increased by 24% from RR59,910 million in the year ended December 31, 2008 to RR74,167 million in the year ended December 31, 2009 mainly due to increase of average balance of loans and borrowings during 2009.

Share of net income (loss) of associated undertakings and jointly controlled entities

Share of net income of associated undertakings and jointly controlled entities in the year ended December 31, 2009, amounted to RR62,557 million compared to the share of net loss of RR16,686 million for the year ended December 31, 2008. The Group's share of the profit for the year 2009 relates mainly to increase of profit of oil and gas associated undertakings of Group due to growth of commodities prices and increase of the net profit of the Gazprombank Group as a result of improved financial performance in 2009 compared to 2008 and the effect of a full year of the Gazprombank Group's results reported under the line "Share of net income (loss) of associated undertakings and jointly controlled entities" in 2009 as it was deconsolidated in the second quarter of 2008.

Profit tax

Total profit tax expense decreased by RR74,610 million, or 29%, to RR185,642 million in the 2009 compared to RR260,252 million in 2008. The effective income tax rate (excluding the effect of change in tax rate from 24% to 20%) was 19.0% in 2009, compared to 25.0% in 2008. The decrease of effective tax rate is mainly affected by change of the tax rate from 24% to 20% starting from January 1, 2009, and one-time recognition of non-taxable income related to the purchase of an additional interest in Gazprom Neft and gain from swap of assets with E.ON Ruhrgas during 2009 and recognition of non-deductible loss from the change in the fair value of option with ENI S.p.A. in 2008.

Profit for the period attributable to owners of OAO Gazprom

As a result of the factors discussed above, the Group's profit for the year ended December 31, 2009 attributable to owners of OAO Gazprom increased by RR36,657 million or 5%, from RR742,928 million in the year ended December 31, 2008 to RR779,585 million in the year ended December 31, 2009.

Profit for the period attributable to non-controlling interest

Non-controlling interest decreased by 50% to RR14,208 million in the year ended December 31, 2009 compared to RR28,452 million in the year ended December 31, 2008 mainly due to the deconsolidation of Gazprombank Group starting second half of 2008 and purchase of additional 20% interest in Gazprom Neft in April 2009.

Liquidity and Capital Resources

We make significant capital expenditures to explore for natural gas and crude oil, to develop our natural gas and crude oil fields and to produce natural gas, gas condensate and crude oil and their products, and to maintain and expand the UGSS and international pipelines. Our capital expenditures (excluding the effect of acquisitions of subsidiaries) were RR204,859 million and RR186,795 million in the three month periods ended March 31, 2011 and 2010, respectively, and RR1,110,834 million in 2010, RR810,870 million in 2009 and RR801,331 million in 2008.

We make significant investments in associated undertakings and jointly controlled entities and acquisitions of subsidiaries. See "—Certain Acquisitions, Dispositions and Changes in Control—Acquisitions and dispositions to March 31, 2010".

For the three month period ended March 31, 2010 and for the years ended December 31, 2010, 2009 and 2008 our operating cash flows were sufficient to cover our cash capital expenditures and other investment activities. Other significant uses of our cash flows include servicing our debt and paying dividends. Interest paid and expensed was RR15,012 million and RR14,115 million in the three month periods ended March 31, 2011 and 2010 respectively, and RR33,428 million, RR58,794 million and RR55,225 million in 2010, 2009 and 2008, respectively. Interest paid and capitalised was RR6,357 million and RR13,495 million in the three month periods ended March 31, 2011 and 2010 respectively, and RR62,392 million, RR45,516 million and RR28,001 million in 2010, 2009 and 2008, respectively. Total interest paid, both expensed and capitalised, was RR21,369 million and RR27,347 million in the three month periods ended March 31, 2011 and 2010, respectively, and RR95,820 million, RR104,310 million and RR83,226 million for 2010, 2009, and 2008, respectively. We paid dividends (including dividends paid by subsidiaries to minority shareholders) of RR262 million in the three month period ended March 31, 2010, and RR55,106 million, RR16,733 million and RR68,013 million in 2010, 2009 and 2008, respectively. No dividend was paid in the three month period ended March 31, 2011.

Our borrowings net of repayments (including bonds and promissory notes) were RR40,370 million and repayments net of borrowings were RR34,231 million in the first three months of 2011 and 2010 respectively. Our repayments net of borrowings were RR123,395 million, our borrowings net of repayments were RR73,843 million and RR67,233 million for 2010, 2009 and 2008, respectively. Our total debt (include long-term borrowings, short-term borrowings, short-term promissory notes payable, long-term promissory notes payable and restructured tax liabilities) decreased from RR1,315,448 million as of December 31, 2010 to RR1,288,278 million as of March 31, 2011. Our cash and cash equivalents and certain restricted cash (i.e., cash balances restricted under certain borrowings) increased from RR444,455 million as of December 31, 2010 to RR447,778 million as of March 31, 2011.

Cash Flows

The following table summarises our statements of cash flows for the three month periods ended March 31, 2011 and 2010, and for the years ended December 31, 2010, 2009 and 2008:

	Three month periods ended March 31,		Year ended December 31, ⁽¹⁾		Year ended December 31, ⁽²⁾		Year ended December 31, ⁽³⁾
	2011	2010	2010	2009	2009	2008	2008
	(RR million)						
	Unaudited		Audited	Unaudited Revised	Audited	Unaudited Revised	Audited
Net cash provided by operating activities	390,425	483,116	1,460,116	897,154	897,154	1,016,551	1,016,551
Net cash used for investing activities	(408,766)	(250,061)	(1,050,307)	(993,111)	(993,111)	(895,598)	(895,598)
Net cash (used for) provided by financing activities...	25,671	(48,882)	(212,384)	(2,867)	(2,867)	(68,893)	(68,893)

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.

- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS. The Unaudited Revised 2008 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2008 Financial Information.
- (3) As extracted from our consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with IFRS.

Net cash provided by operating activities

Net cash provided by operating activities amounted to RR390,425 million in the three month period ended March 31, 2011 compared to RR483,116 million in the three month period ended March 31, 2010. The decrease was primarily due to the negative dynamics of changes in working capital. This effect was partly offset by the growth of our operating profit in the three month period ended March 31, 2011 in comparison with the same period of the prior year.

Net cash provided by operating activities increased by RR562,962 million, or 63%, and amounted to RR1,460,116 million in the year ended December 31, 2010 compared to RR897,154 million in the year ended December 31, 2009. The increase was primarily due to growth of our operating profit in the year ended December 31, 2010 in comparison with the year ended December 31, 2009, which was supplemented by positive dynamics of changes in working capital.

Net cash provided by operating activities amounted to RR897,154 million in the year ended December 31, 2009 compared to RR1,016,551 million in the year ended December 31, 2008. The decrease of RR119,397 million was primarily due to reduction of operating profit growth for 2009 in comparison with 2008.

Net cash used for investing activities

Net cash used for investing activities increased by RR158,705 million, or 63%, to RR408,766 million in the three month period ended March 31, 2011 compared to RR250,061 million in the three month period ended March 31, 2010. The increase was primarily due to the increase in total capital expenditures in the three month period ended March 31, 2011 in comparison with the same period of the prior year. This effect was partly offset by the decrease in cash used for acquisition of subsidiaries and investment in associated undertakings and jointly controlled entities in the three month period ended March 31, 2011 in comparison with the same period of the prior year.

Net cash used for investing activities increased by RR57,196 million, or 6%, to RR1,050,307 million in the year ended December 31, 2010 compared to RR993,111 million in the year ended December 31, 2009. This increase relates mainly to the increase in cash used for capital expenditures in development of fields and transport infrastructure which was partly offset by decrease in cash used for acquisition of shares in subsidiaries due to purchase of non-controlling interest in Gazprom Neft for RR138,527 million in the year ended December 31, 2009.

Net cash used for investing activities amounted to RR993,111 million in the year ended December 31, 2009 compared to RR895,598 million in the year ended December 31, 2008. The increase was primarily due to increase of cash used for acquisition of subsidiaries and higher capital expenditures on field development and gas transportation infrastructure (see "Capital Expenditures"). Investment activities for the year ended December 31, 2008 primarily consisted of higher capital expenditures on field development and gas transportation infrastructure (see "Capital Expenditures") as well as additional investments in Sakhalin Energy, TGK-1 and Beltransgaz.

Net cash (used for) provided by financing activities

Net cash provided by financing activities amounted to RR25,671 million in the three month period ended March 31, 2011 compared to net cash used for financing activities in amount RR48,882 million in the

three month period ended March 31, 2010. This change was mainly due to the increase in proceeds of long-term borrowings in the three month period ended March 31, 2011 compared to the same period of the prior year.

Net cash used for financing activities amounted to RR212,384 million in the year ended December 31, 2010 compared to net cash used for financing activities in the amount of RR2,867 million in the year ended December 31, 2009. This increase was due to change from net proceeds from long term loans and borrowings in 2009 to net repayment in 2010.

Net cash used for financing activities amounted to RR2,867 million in the year ended December 31, 2009 compared to net cash used for financing activities in the amount of RR68,893 million in year ended December 31, 2008. This change was primarily due to the fact that the amount of dividends paid in 2008 based on the results for 2007 were higher than the amount of dividends paid in 2009 based on the results of 2008.

Working Capital

Our working capital surplus (which we define as current assets less current liabilities) was RR1,063,729 million as of March 31, 2011 and RR854,634 million as of December 31, 2010. The RR209,095 million increase in our working capital in the three month period ended March 31, 2011 was primarily due to a decrease in our accounts payable and accrued charges and increase in our accounts receivable and prepayments. These effects were partially offset by an increase in our other taxes payable. The decrease of accounts payable and accrued charges amounted to RR207,520 and was primarily due to the decrease of trade payable, accounts payable in respect of acquisition of property, plant and equipment and settlement of advances received. The increase of accounts receivable and prepayments amounted to RR74,767 million was mainly due to increase of prepayments, mainly to customs, and trade receivables. The increase of other taxes payable by RR42,175 million was primarily due to the increase of VAT payable, increase of mineral extraction tax payable and increase of payables in relation to state pension fund and other social taxes. Management believes that we have sufficient working capital to meet our requirements for at least the next twelve months. However, we are dependent on the short-term credit markets to finance our working capital. We also depend on regular access to the domestic ruble bank loan and ruble debt markets to meet a significant portion of its financing requirements.

The working capital surplus (current assets less current liabilities) was RR854,634 million as of December 31, 2010 and RR639,082 million as of December 31, 2009. The RR215,552 million increase in our working capital in the year ended December 31, 2010 was primarily due to a decrease in short-term borrowings and current portion of long-term borrowings and an increase in cash and cash equivalents. These effects were partially offset by an increase in accounts payable.

The decrease in short-term borrowings and current portion of long-term borrowings in the amount of RR234,010 million was caused mainly by deconsolidation of Group's banking subsidiaries, and also by redemption of loans and loan participation notes issued.

The increase in cash and cash equivalents amounting to RR191,027 million was caused by the increase of cash on Group accounts.

The increase in accounts payable and accrued charges amounting to RR200,565 million was caused mainly by increase in advances received for gas sold, increase of trade payables for gas sold, and also by increase in trade payables related to investment construction.

Our working capital surplus (current assets less current liabilities) was RR639,082 million as of December 31, 2009 and RR607,230 million as of December 31, 2008. The RR31,852 million increase in our working capital in year ended December 31, 2009 was primarily due to an increase in our accounts receivable and prepayments and short-term financial assets. These effects were partially offset by a decrease in cash and cash equivalents and an increase in accounts payable and taxes payable. The increase in our accounts receivable and prepayments amounted to RR170,791 million and was caused by increase of prepayments, mainly to

customs, and increase in loans issued. The increase in our short-term financial assets amounting to RR28,689 million was caused mainly by growth of debt securities balances held by ZAO Gazenergoprombank. The increase in accounts payable mainly relates to accounts payable of newly consolidated subsidiaries Sibir and NIS and accounts payable related to the acquisition of 51% interest in OOO Severenergiya (respective accounts payable were redeemed on March 31, 2010).

Capital Expenditure

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segment for the three month periods ended March 31, 2011 and 2010 and for the years ended December 31, 2010, 2009 and 2008 in nominal ruble terms, amounted to the following:

	Three month period ended March 31,			
	2011		2010	
	(RR million)	(%)	(RR million)	(%)
Transport	87,547	42.7%	78,771	42.2%
Production of gas	54,926	26.8%	58,947	31.6%
Production of crude oil and gas condensate	18,978	9.3%	18,510	9.9%
Refining	16,751	8.2%	10,063	5.4%
Electric and heat energy generation and sales	9,668	4.7%	7,229	3.9%
Distribution	11,287	5.5%	7,737	4.1%
Gas storage	1,408	0.7%	1,409	0.8%
Other ⁽¹⁾	4,294	2.1%	4,129	2.2%
Total⁽²⁾	204,859	100%	186,795	100%

	Year ended December 31, ⁽³⁾				Year ended December 31, ⁽⁴⁾			
	2010		2009		2009			
	(RR million)	(%)	(RR million)	(%)	(RR million)	(%)		(%)
	Audited		Unaudited Revised		Audited			
Transport	503,487	45.3%	289,164	36%	289,164	36%		
Production of gas	281,540	25.3%	274,755	34%	274,755	34%		
Production of crude oil and gas condensate	91,805	8.3%	88,764	11%	88,764	11%		
Refining	92,271	8.3%	58,589	7%	58,589	7%		
Distribution	44,633	4.0%	35,823	4%	35,823	4%		
Electric and heat energy generation and sales	53,929	4.9%	29,953	4%	29,953	4%		
Gas storage	21,016	1.9%	10,942	1%	10,942	1%		
Other ⁽¹⁾	22,153	2.0%	22,880	3%	22,880	3%		
Total⁽²⁾	1,110,834	100%	810,870	100%	810,870	100%		

Notes:

- (1) Primarily includes expenditures for the acquisition of non-productive assets.
- (2) The capital expenditures in the present analysis may differ from the capital additions disclosed within the Group's business segments in our IFRS consolidated financial statements for respective periods primarily due to VAT included in the amounts above.
- (3) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (4) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) increased by RR18,064 million, or 10%, from RR186,795 million in the three month period ended March 31, 2010 to RR204,859 million in the three month period ended March 31, 2011. The increase of our capital expenditures in the Transport segment was primarily due to increased capital expenditure on the construction of major transportation projects, including Pipeline Bovanenkovo-Uhta and Pipeline Sakhalin-Khabarovsk-Vladivostok. The increase of our capital expenditures in the Refining segment was primarily due to increased capital expenditures of Gazprom Neft Group and OOO Novourengosky GCC. The decrease of our capital expenditures in the Production of gas segment was primarily due to decreased capital expenditures on the construction of Obskaya-Bovanenkovo railway, which was partly compensated by acquisition of property of OAO RUSIA Petroleum.

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) increased by RR299,964 million, or 37%, from RR810,870 million in the year ended December 31, 2009 to RR1,110,834 million in the year ended December 31, 2010.

The increase of our capital expenditures in the Transport segment was primarily due to increased capital expenditure on the construction of major transportation projects, including Sakhalin-Khabarovsk-Vladivostok, Pipeline Bovanenkovo-Uhta, and Gryazovets-Viborg. The increase of our capital expenditures in the Refining segment was primarily due to increased capital expenditure of Gazprom Neft. The increase of our capital expenditures in the Electric and heat energy generation and sales segment was primarily due to consolidation of TGC-1 starting from December 31, 2009 after control over that entity was obtained.

The following table shows our cash and non-cash capital expenditures (excluding the effect of acquisitions of subsidiaries):

	Three month periods ended March 31,		Year ended December 31, ⁽¹⁾		Year ended December 31, ⁽²⁾
	2011	2010	2010	2009	2009
	(RR million)				
	Unaudited		Audited	Unaudited Revised	Audited
Cash capital expenditures	391,049	205,104	1,042,642	795,640	795,640
Interest paid and capitalised	6,357	13,495	62,392	45,516	45,516
Changes in settlements related to capital construction	(192,547)	(31,804)	(5,800)	(30,286)	(30,286)
Total capital expenditures⁽³⁾	204,859	186,795	1,110,834	810,870	810,870

Note:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.
- (3) Data presented in this table includes all of our consolidated subsidiaries for the relevant periods.

Our adjusted budgeted total capital expenditures by segment for the year ending December 31, 2011 are as follows (excluding expenditures for certain of our subsidiaries, namely Mosenergo, OGC-2, OGC-6, TGC-1 and Gazprom Neft):

	Year ending December 31, 2011 ⁽¹⁾⁽²⁾	
	(RR million)	(%)
Transport	783,851	66%
Production of gas	316,506	27%
Gas storage	26,119	2%
Distribution	8,427	1%
Refining	10,681	1%
Production of crude oil and gas condensate	5,431	0%
Other	35,704	3%
Total	1,186,719	100%

Notes:

- (1) RR144,420 million for construction of the Sakhalin-Khabarovsk-Vladivostok pipeline, RR259,936 million for construction of the system of the Bovanenkovo-Ukhta pipelines, RR85,638 million for construction of the Gryazovets-Vyborg pipeline, RR57,591 million to develop the Bovanenkovskoye field, RR28,919 million for construction of the Pochinky-Gryazovets pipeline and RR89,515 million for the construction of the Ukhta-Torzhok gas trunk pipeline system and RR33,073 million for the development of the Kirinskoye field. The Board of Directors approved this capital expenditure budget on September 27, 2011.
- (2) Includes VAT.

Debt Obligations

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities, net of cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations) decreased by RR30,493 million, or 4%, from RR870,993 million as of December 31, 2010 to RR840,500 million as of March

31, 2011. This decrease resulted mainly from the decrease in short-term and long-term borrowings caused by appreciation of ruble against euro and U.S. dollar.

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities, net of cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations) decreased by RR501,314 million, or 37%, from RR1,372,307 million as of December 31, 2009 to RR870,993 million as of December 31, 2010. This decrease resulted from decrease of short-term and long-term borrowings, which was primarily caused by the effect of early redemption of long-term borrowings, deconsolidation of banking subsidiaries of the Group as of December 31, 2010 and the increase in cash and cash equivalents.

The following table shows our borrowings as of March 31, 2011, December 31, 2010, 2009 and 2008:

	As of March 31, 2011	As of December 31, ⁽¹⁾		As of December 31, ⁽²⁾		As of December 31, ⁽³⁾
		2010	2009	2009	2008	2008
				(RR million)		
	Unaudited	Audited	Unaudited Revised	Audited	Unaudited Revised	Audited
Long-term borrowings						
Fixed interest rate borrowings.....	1,061,888	1,065,435	1,149,288	1,149,288	914,937	914,937
Weighted average interest rates for fixed rate borrowings	7.60%	7.66%	7.84%	7.84%	6.65%	6.65%
Variable interest rate borrowings	182,786	186,531	268,848	268,848	247,313	247,313
Weighted average interest rates for variable rate borrowings.....	3.21%	3.01%	2.10%	2.10%	4.64%	4.64%
Total long-term borrowings	1,244,674	1,251,966	1,418,136	1,418,136	1,162,249	1,162,249
RR denominated borrowings.....	164,603	129,071	154,887	154,887	95,035	95,035
Foreign currency denominated borrowings.....	1,080,071	1,122,895	1,263,249	1,263,249	1,067,214	1,067,214
Total long-term borrowings	1,244,674	1,251,966	1,418,136	1,418,136	1,162,249	1,162,249
Less: current portion of long-term borrowings	(135,845)	(127,571)	(233,679)	(233,679)	(239,019)	(239,019)
Add: long-term promissory notes, net of discount.....	—	—	4,592	4,592	1,718	1,718
Average discount on promissory notes	—	—	—	—	—	—
Total long-term borrowings and promissory notes	1,108,829	1,124,395	1,189,049	1,189,049	924,948	924,948
Short-term debt borrowing						
Fixed interest rate borrowings.....	38,556	21,375	134,823	134,823	94,265	94,265
Weighted average interest rates for fixed rate borrowings	4.61%	4.81%	8.78%	8.78%	6.25%	6.25%
Variable interest rate borrowings	4,997	41,899	56,353	56,353	99,356	99,356
Weighted average interest rates for variable rate borrowings.....	4.75%	3.11%	3.08%	3.08%	5.60%	5.60%
Total short-term borrowings	43,553	63,274	191,176	191,176	193,621	193,621
RR denominated borrowings.....	34,005	16,111	119,178	119,177	90,770	90,770
Foreign currency denominated borrowings.....	9,548	47,163	71,998	71,998	102,851	102,851
Total short-term borrowings	43,553	63,274	191,176	191,176	193,621	193,621
Plus: Current portion of long-term borrowings.....	135,845	127,571	233,679	233,679	239,019	239,019
Short-term promissory notes, net of discount	51	207	11,761	11,761	8,052	8,052
Average discount on promissory notes	—	—	—	—	—	—
Total short-term borrowings and promissory notes	179,449	191,052	436,616	436,616	440,692	440,692
Total borrowings and promissory notes	1,288,278	1,315,447	1,625,665	1,625,665	1,365,640	1,365,640

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS. The Unaudited Revised 2008 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2008 Financial Information.
- (3) As extracted from our consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with IFRS.

The following table shows the breakdown by currency of our actual foreign currency denominated long-term borrowings (expressed in millions of U.S. dollars) as of March 31, 2011 and as of December 31, 2010, 2009 and 2008 as well as the same balances expressed in RR:

	As of March 31, 2011	As of December 31, ⁽¹⁾ 2010	As of December 31, ⁽²⁾ 2009	As of December 31, ⁽²⁾ 2008	As of December 31, ⁽³⁾ 2008
	Unaudited	Audited	Unaudited Revised	Audited	Unaudited Revised
U.S. dollar denominated (expressed in millions of U.S. dollars)	26,744	26,140	26,261	26,261	23,125
Euro denominated (expressed in millions of U.S. dollars) ⁽⁴⁾	10,369	9,849	12,785	12,785	13,196
Other currencies denominated (expressed in millions of U.S. dollars)	879	855	2,723	2,723	3
Total long-term convertible-currency-denominated borrowings expressed in millions of U.S. dollars	37,992	36,844	41,769	41,768	36,324
Total long-term convertible-currency-denominated borrowings expressed in millions of RR⁽⁵⁾	1,080,071	1,122,895	1,263,249	1,263,249	1,067,214

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS. The Unaudited Revised 2008 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2008 Financial Information.
- (3) As extracted from our consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with IFRS.
- (4) Converted at the euro to U.S. dollar exchange rate as of the end of the respective periods.
- (5) Converted at the exchange rate as of period-end.

A portion of our long-term borrowings denominated in convertible currencies is collateralised by receivables under certain of our export contracts. As of March 31, 2011 and December 31, 2010, 2009 and 2008, borrowings of RR18,611 million, RR22,747 million, RR27,118 million and RR30,451 million, respectively, inclusive of current portion of long-term borrowings, were secured by revenues from export supplies of gas to Western Europe. We have not increased our borrowings secured by revenues from export supplies of natural gas to Western Europe since March 31, 2011.

The following table shows our schedule of repayments for long-term borrowings (excluding long-term promissory notes) as of March 31, 2011 and December 31, 2010, 2009 and 2008:

	As of March 31, 2011	As of December 31, ⁽¹⁾ 2010	As of December 31, ⁽²⁾ 2009	As of December 31, ⁽²⁾ 2008	As of December 31, ⁽³⁾ 2008
	Unaudited	Audited	Unaudited Revised	Audited	Unaudited Revised
	(RR million)				
Between one and two years	229,197	166,853	162,848	162,848	181,615
Between two and five years	467,241	551,310	527,212	527,212	267,294
After five years	412,391	406,232	494,397	494,397	474,321
Total	1,108,829	1,124,395	1,184,457	1,184,457	923,230

Notes:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS. The Unaudited Revised 2008 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2008 Financial Information.
- (3) As extracted from our consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with IFRS.

Recent developments

In April 2011, the Group signed an agreement to obtain a long-term unsecured syndicated loan facility from a consortium of banks for an amount of U.S.\$600 million at an interest rate of LIBOR plus 1.5% due in 2016. ZAO Mizuho Corporate Bank (Moscow) was appointed as the agent bank. Further, in May 2011, the Group obtained project finance for the development of the Yuzhno-Russkoye oil and gas field from a consortium of foreign banks and OAO Gazprombank for an amount of RR5,993, U.S.\$657 million and euro474 million at an interest rate of 11.4%, LIBOR plus 2.35% and EURIBOR plus 2.35%, respectively, due in 2018. UniCredit Bank AG was appointed as the agent bank.

Contractual Obligations and Other Commitments

The amount of outstanding guarantees provided to third parties decreased by RR46,382 million to RR194,995 million between December 31, 2010 and March 31, 2011 primarily as a result of the decrease in outstanding amounts of existing guarantees issued on behalf of OOO Severny Europeysky Trubny Proekt, OOO Torgovy Dom Truboprovod, SEIC and BSPC of RR27,227 million, RR8,305 million, RR6,264 million and RR3,512 million, respectively.

The maximum exposure to credit risk in relation to financial guarantees was RR241,377 million and RR188,286 million as of December 31, 2010 and 2009, respectively. The increase was mainly due to guarantees provided to Societe Generale on behalf of Nord Stream AG with respect to the credit facility for the financing of the completion of Nord Stream gas pipeline Phase 1 (RR50,005 million (euro 1,240 million) as of December 31, 2010) and to OAO Gazprombank on behalf of OOO Severny Europeysky Trubny Proekt with respect to a trade credit facility in relation to supplies of pipes supplied to subsidiaries of OAO Gazprom (RR27,227 million as of December 31, 2010).

The amount of outstanding guarantees provided to third parties decreased by RR360 million to RR86,968 million between December 31, 2008 and December 31, 2009 primarily as a result of the decrease in outstanding amounts of existing guarantees issued on behalf of BSPC, DSL Assets International Limited and United Energy Investments Limited of RR5,775 million, RR888 million and RR887 million, respectively. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. This decrease was partially offset by the provision of a guarantee to Gazprombank on behalf of Stroygazconsulting as security of a credit facility for the construction supply of the Bovanenkovskoye and Yamburgskoe fields and Bovanenkovo-Ukhta gas trunk-line system. As of December 31, 2009 the above guarantee amounted to RR8,841 million.

Outstanding guarantees provided to third parties decreased by RR6,912 million to RR87,328 million between December 31, 2007 and December 31, 2008, mainly due to the deconsolidation of Gazprombank, which led to us ceasing to recognise guarantees provided by Gazprombank. In 2006, we provided guarantees to Asset Repackaging Trust Five B.V. (registered in the Netherlands) on behalf of the five companies (Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited) registered in Ireland, with respect to the loan made by them to SGT EuRoPol GAZ S.A. ("EuRoPol GAZ"). These guarantees are now accounted for as external after the deconsolidation of Gazprombank, the guarantor of the loan. The guarantees amounted to RR18,223 million (U.S.\$620 million) as of December 31, 2008. In April 2008, we provided a guarantee to Credit Suisse International and National Reserve Bank (OAO) on behalf of MRK Energy DMCC. The purpose of the loan was to finance the construction of the gas pipeline "Kudarsky pereval—Tskhinval" in South Ossetia. As of December 31, 2008, the outstanding amount under this guarantee was RR6,959 million. In May 2008, we provided a guarantee to OAO Bank of Moscow on behalf of OAO Group E4 with respect to the loan received for the purpose of constructing power units. As of December 31, 2008 the outstanding amount of this guarantee was RR3,562 million (euro 86 million).

We have significant obligations to supply gas under long-term contracts with European customers.

Qualitative and Quantitative Disclosures and Market Risks

We are exposed to market risk from changes in commodity prices, foreign currency exchange rates, interest rates and prices of marketable securities. We are exposed to commodity risk as we are a commodity business and our natural gas export sales are linked to oil product prices. We are exposed to foreign exchange risk to the extent that our sales revenues, costs, receivables for gas sales and debt are denominated in currencies other than rubles. We are subject to market risk from changes in interest rates that may affect the cost of our financing. We do not use any significant financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks and we do not hold or issue any significant derivative or other financial instruments for trading purposes.

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the ruble relative to the U.S. dollar and euro. As of March 31, 2011, approximately RR766,616 million and RR296,022 million of our borrowings were denominated in U.S. dollars and euro, respectively (out of RR1,288,227 million of our total borrowings, excluding promissory notes, at that date). Decreases in the value of the ruble relative to the U.S. dollar or euro will increase our foreign currency denominated costs and expenses and our debt service obligations for foreign currency denominated borrowings in ruble terms. A depreciation of the ruble relative to the U.S. dollar or euro will also result in an increase in the value of our foreign currency borrowings in ruble terms. We believe that the risks associated with our foreign currency exposure are mitigated by the fact that a significant portion of our revenues, approximately 61% for the three month period ended March 31, 2011, are U.S. dollar or euro denominated. In the three month period ended March 31, 2011, the ruble had appreciated against the U.S. dollar by approximately 8.5% and appreciated against the euro by approximately 2.2% (source: www.cbr.ru).

A hypothetical, instantaneous and unfavourable 10% change (appreciation of the foreign currency in a net foreign currency liability position) in currency exchange rates would have resulted in additional interest expense, including default interest, of approximately RR1,794 million, RR2,208 million, RR8,187 million, RR10,896 million and RR6,419 million (nominal) for the three month periods ended March 31, 2011 and 2010 and for the years ended December 31, 2010, 2009 and 2008, respectively, reflecting the increased costs in rubles of servicing our foreign currency denominated borrowings held as of March 31, 2011 and 2010 and as of December 31, 2010, 2009 and 2008, respectively.

A hypothetical, instantaneous and unfavourable 10% change (appreciation of the foreign currency in a net foreign currency liability position) in currency exchange rates as of March 31, 2011 and 2010 and as of December 31, 2010, 2009 and 2008, would have resulted in an estimated foreign exchange loss of approximately RR108,961 million and RR124,413 million and RR117,006 million, RR133,525 million and RR117,007 million (nominal), respectively, on foreign currency denominated borrowings held as of March 31, 2011 and 2010 and as of December 31, 2010, 2009 and 2008, respectively. Such effect would be at least partially off-set by increased revenues generated by export contracts denominated in U.S. dollars and euro.

Interest rate risk

We are exposed to interest rate risk in our borrowings that bear interest at floating rates. As of March 31, 2011, December 31, 2010, 2009 and 2008, respectively, we had approximately RR1,288,227 million, RR1,315,240 million, RR1,609,312 million and RR1,355,870 million in total borrowings (excluding promissory notes), of which approximately RR1,100,437 million, RR1,086,810 million, RR1,284,111 million and RR1,009,202 million bore interest at fixed rates and approximately RR187,789 million, RR228,430 million, RR325,201 million and RR346,668 million bore interest at floating rates determined generally by reference to the London inter-bank offered rate ("LIBOR") for U.S. dollar and euro deposits, respectively.

A hypothetical, instantaneous and unfavourable change (increase) of 100 basis points in the interest rate applicable to floating rate financial liabilities held as of March 31, 2011 and 2010 and December 31, 2010, 2009 and 2008 would have resulted in additional net interest expense of approximately RR2,081 million, RR2,791 million and RR2,768 million, RR3,359 million and RR3,869 million (nominal), respectively, for the three month periods ended March 31, 2011 and 2010 and for the years ended December 31, 2010, 2009 and

2008. This sensitivity analysis is based on the assumption of an unfavourable 100 basis point movement of the interest rate applicable to each homogeneous category of financial liabilities. A homogeneous category is defined according to the currency in which financial liabilities are denominated and assumes the same interest rate movement within each homogeneous category (e.g., U.S. dollars and euro).

A hypothetical, instantaneous and unfavourable change (decrease) of 100 basis points in the interest rate would have resulted in an increase in the fair value of fixed rate financial liabilities held as of March 31, 2011 and December 31, 2010, 2009 and 2008 of RR51,553, RR47,174 million, RR49,112 million and RR35,333 million, respectively.

Derivatives

Our banking subsidiaries used a number of derivative instruments, including forward foreign exchange contracts, written foreign exchange and written securities option contracts. We ceased to consolidate OAO Gazprombank and ZAO Gazenergoprombank from the date we lost the ability to control the financial and operational policies of these banks in June 2008 and April 2010, respectively. For the purpose of reducing commodity risk, interest rate risk, currency risk and other market risks we continue to use a number of derivative instruments, which are not significant for the Group. These comprised commodity contracts, interest rate swap contracts, foreign currency derivatives and other derivatives. The objective, when using any derivative instrument, was to ensure that the risk to reward profile of any transaction was optimised. Our normal policy is to measure these instruments at their fair value, using the spot rate at the year end as the basis for the fair value measurement with resultant gains or losses being reported within gains less losses arising from dealing in foreign currencies within our consolidated statement of income.

Commodity risk

Substantially all of our natural gas, gas condensate and other hydrocarbon export sales to Europe and Other Countries are sold under long-term contracts. Our natural gas export prices to Europe and Other Countries are based on a formula linked to world oil product prices, which in turn are linked to world crude oil prices. Worldwide political developments and the actions of OPEC affect crude oil prices and thus our natural gas export prices. We do not use any significant derivative instruments to hedge our production in order to decrease our price risk exposure.

Securities price risk

We are exposed to movements in the prices of marketable securities that we hold in our investment portfolio. Specifically, as of March 31, 2011, we held RR176,000 million of marketable corporate shares and bonds. A change in Russia's sovereign credit rating, or an external event that impacts Russian debt and equity prices, have an impact on the market value of our trading securities. The fair value of our pension plan assets is also exposed to the prices of marketable securities.

GAZPROM

Overview

We are one of the world's largest oil and gas companies in terms of reserves, production and market capitalisation. For the year ended December 31, 2010, our sales net of excise tax, VAT and customs duties were RR3,597,054 million (U.S.\$126,528 million) and our operating profit was RR1,113,822 million (U.S.\$39,179 million). As of December 31, 2010, we had total assets of RR9,235,993 million (U.S.\$324,879 million) and total shareholders' equity (excluding minority interest) of RR6,249,751 million (U.S.\$219,837 million). The consequences of the global financial crisis negatively affected our financial position and operating results in production, transportation and other operations in 2009. However, our financial position and operating results for the year ended December 31, 2010 improved compared to the year ended December 31, 2009.

Strengths

Reserves. We estimate our reserves using the Russian reserves system, which differs significantly from the international methodologies developed as part of the Petroleum Resources Management System (PRMS Standards), in particular, with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. We estimate that we had Russian reserves classification ABC₁ reserves of 33.1 tcm (194.7 bboe) of natural gas, 1,284.8 million tons (10.5 bboe) of gas condensate and 1,732.9 million tons (12.7 bbls) of crude oil, for a total of 217.9 bboe, as of December 31, 2010. Over 70% of these ABC₁ natural gas reserves are concentrated in western Siberia. Most of our reserves outside of western Siberia are located in the Barents Sea and southern Russia.

Our reserves were evaluated as of December 31, 2010 in accordance with PRMS Standards and covered approximately 93% of our ABC₁ natural gas reserves, 86% of our ABC₁ gas condensate reserves and 90% of our ABC₁ crude oil reserves. See "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Classification of Reserves—Differences between PRMS Standards and SEC Standards." As of December 31, 2010, our proved reserves according to such evaluation amounted to 19.0 tcm (111.9 bboe) of natural gas, 572.1 million tons (4.7 bboe) of gas condensate and 717.4 million tons (5.3 bbls) of crude oil, for a total of 121.8 bboe, and our probable reserves amounted to 3.5 tcm (20.8 bboe) of natural gas, 147.2 million tons (1.2 bboe) of gas condensate and 464.5 million tons (3.4 bbls) of crude oil, for a total of 25.4 bboe. We believe that the evaluated fields are likely to contain most of our reserves that would be deemed proved or probable upon a full evaluation of our reserves in accordance with PRMS Standards.

Exploration and production. In the year ended December 31, 2010, we produced 508.6 bcm (2,995.6 mmboe) of natural gas, 11.3 million tons (92.4 mmboe) of gas condensate and 32.0 million tons (234.6 mmbls) of crude oil, for a total of 3,322.6 mmboe, as compared with 461.5 bcm (2,718.4 mmboe) of natural gas, 10.1 million tons (82.4 mmboe) of gas condensate and 31.6 million tons (231.8 mmbls) of crude oil, for a total of 3,032.5 mmboe, in the year ended December 31, 2009. Our production in 2010 was significantly affected by the recovery of demand in our principal markets following the decrease of demand in 2009 due to the global financial crisis.

Based on CDU TEC (source: www.cdu.ru) and Gazprom figures, our natural gas production represented approximately 78% and 79% of total natural gas production in Russia in 2010 and 2009, respectively. Our natural gas production in western Siberia accounts for over 90% of our natural gas production.

Gas transportation. We own and operate the UGSS, which collects, processes, transports, stores and delivers substantially all the natural gas sold in Russia. The UGSS comprises the world's largest high-pressure trunk pipeline system. As of December 31, 2010, the total length of the system was 161,680 km (not including pipelines for the transportation of gas condensate) and included 215 compressor stations on the pipelines and 25 UGSFs. We control and manage the transportation of gas in the UGSS network from our central dispatch management centre, located in Moscow. We transported 661.2 bcm and 589.7 bcm of natural gas in 2010 and

2009, respectively. The increase in the volume of gas transported in 2010 as compared to 2009 was primarily increase of gas production in Russia.

Processing, refining and petrochemical production. We refine a large amount of the natural and associated gas, gas condensate and crude oil that we produce. As of December 31, 2010, our total annual processing and refining capacity was 52.5 bcm of natural gas and 75.4 million tons of unstable gas condensate and crude oil. In 2010, we refined 33.6 bcm of natural and associated gas and 50.2 million tons of unstable gas condensate and crude oil, as compared with 30.4 bcm of natural and associated gas and 44.3 million tons of unstable gas condensate and crude oil in 2009, respectively. We also produce a wide range of refined and petrochemical products.

Gas sales. We supply a major part of the natural gas consumed in Russia and a significant portion of the natural gas consumed in the FSU countries to which we export our natural gas. According to the statistical survey "2010 Natural Gas Year in Review, CEDIGAZ' First Estimates (April 2011)", we supplied approximately a quarter of the natural gas consumed in Europe in 2010, which made us the largest supplier of natural gas to Europe in that year. For the year ended December 31, 2010, our sales of natural gas to our principal markets - Europe and Other Countries, the FSU and Russia - accounted for approximately 30%, 14% and 56% of our natural gas sales volume and approximately 50%, 21% and 29% of our natural gas net sales revenues, respectively. Most of our exports to Europe are transported by pipelines through Ukraine and Belarus. In the year ended December 31, 2010, our gas sales volume amounted to 495.6 bcm as compared with 478.5 bcm in the year ended December 31, 2009. This increase was a result of the recovery of demand for gas in our principal markets following the decrease in demand experienced during 2009 due to the global economic crisis which was also accompanied by a decline in industrial production and energy consumption in our principal markets.

Electricity. In recent years, we have consolidated electric power and heat generating assets, including OGK-2, OGK-6 and TGK-1. Our aggregate electric power generating capacity amounted to 36,205 MW and heat generating capacity amounted to 54,525 Gcalh and we generated 175.1 billion kWh of electric power and 106.9 million Gcal of heat as of and for the year ended December 31, 2010.

Relationship with the Government. The Russian Federation currently controls more than 50% of our shares. As our controlling shareholder, the Russian Federation has a strong influence over the major decisions made at our shareholder meetings and, as the nominating party for a majority of the members of Gazprom's Board of Directors, is able to determine our strategy, make policy decisions in relation to the main areas of our business (including investments, borrowings, risk management and asset allocation), and supervise the implementation of such decisions. Currently, the Government regulates the tariffs that we charge for gas transportation through our trunk pipelines to independent gas suppliers, the wholesale prices for gas that we and our affiliated companies sell in the domestic market, as well as some other spheres where we operate. See "— Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters— Russian Regulation—The UGSS." In addition, we are the largest taxpayer to the federal budget.

Strategy

Our strategic goal is to continue to be a leader among global energy companies by penetrating new markets, diversifying our activities and increasing the reliability of our natural gas supplies.

To achieve this goal, our development strategy provides for prioritising our investments in those gas production fields that we believe will provide the most efficient and integrated development of gas production, transportation, processing and storage facilities. The slowdown of the Russian economy and the economies of our principal customers as a result of the recent global economic crisis led to a reduction in prices and demand for natural gas. In response to these changes in demand for our products, we reduced our natural gas production in the first half of 2009 and adjusted our initial plans to increase our capacity in production and transportation and related plans for short-term and medium-term capital expenditures. Demand from our principal markets and, consequently, the Group's production performance began to recover towards the middle of 2009 and continued to show growth in 2010 as well as during the first half of 2011. Our strategy allows us to adapt our response to

any changes in the demand for gas both at the domestic and international markets. See "—Investment programme".

We believe that our long-term forecasts of demand in our major markets, the projected economic efficiency of our projects and planned increases of our capacities continue to be reasonable estimates and based on a conservative approach. Therefore, we believe that our long-term strategic goals and projects are sustainable despite any short- and medium-term changes in the economic environment. Due to the above-mentioned decrease in demand for natural gas, we postponed the commissioning of the first launch complexes of the Bovanenkovskoye field and the Bovanenkovo-Ukhta trunk gas pipeline system from the third quarter of 2011 until the third quarter of 2012. However, we do not currently intend to introduce any other material changes into our long-term strategy with respect to our core activities, including the development of the Yamal Peninsula, a project which is significant to us and the development of the Russian economy and which is therefore supported by federal and local authorities.

In 2009, we increased our shareholding in Gazprom Neft from 75.68% to 95.68% which allowed us to begin consolidating our entire oil business within one subsidiary. Gazprom Neft's strategic goal is to become a large international player with a regionally diversified portfolio throughout the value chain.

Exploration and production. To pursue the recovery of our hydrocarbon reserves, we perform geological exploration works in our main production regions, the most important of which are the Nadym-Pur-Tazovsky region in western Siberia and the pre-Caspian oil and gas bearing provinces in southern Russia, as well as other promising gas production regions, such as the Yamal Peninsula in western Siberia, the Russian sea shelf of the Arctic seas (including the Obskaya and Tazovskaya Bays), eastern Siberia and the Far East. In accordance with our geological exploration programme, we plan to ensure the enhanced recovery of our gas reserves.

Assuming sufficient demand in Russia and favourable conditions in foreign markets in the long-term, we expect our annual production (including production in eastern Siberia and the Russian Far East) to reach up to 650-670 bcm by 2020.

In order to reach these levels, we intend to develop new strategic fields in the Yamal Peninsula in western Siberia, the Russian sea shelf, in eastern Siberia and the Far East. The development of fields in these regions will require significant investment because of their distance from existing gas transportation facilities, the complexity of well construction in such areas and difficulties in the implementation of new technologies, including those for environmental preservation in severe weather conditions.

We develop resources in eastern Siberia and the Far East in accordance with the Eastern Programme authorising us to create a unified gas production, transportation and supply system in eastern Siberia and the Far East with the potential export of gas to markets in China and other Asian-Pacific countries. Gazprom is the coordinator of the Eastern Programme. The Eastern Programme envisages the creation of the Sakhalinskiy, Yakutskiy, Irkutskiy and Krasnoyarskiy gas production centres. The production in these regions is expected to reach up to 32 bcm of natural gas by 2020. The Eastern Programme identifies the sea shelf of Sakhalin as the highest-priority area for full-scale commercial development. In April 2007, we acquired a 50% plus one share interest in Sakhalin Energy, the project operator of Sakhalin II. See "—Reserves and Production—Exploration, Development and Production regions—Russian sea shelf—Associated companies and development of associated projects in the region—Sakhalin II project."

We also intend to expand our reserves outside of Russia and obtain licences for exploration and development of hydrocarbon reserves in various international regions. Currently, the Group conducts business in Algeria, Bolivia, India, Kyrgyzstan, Libya, Tajikistan, Uzbekistan, Venezuela and Vietnam. We are also negotiating to participate in projects in other Asian, Middle Eastern and African countries.

In December 2009, we decided to transfer rights to the Novoportovskoye field and the eastern area of the Orenburgskoye field to Gazprom Neft. Gazprom Neft intends to increase its annual oil production, including production of its subsidiaries and its share in associated companies, to 100 million tons of oil equivalent by 2020. Gazprom Neft expects to maintain a reserve-to-production ratio at current levels for at least 20 years, and the new projects are expected to account for at least a half of Gazprom Neft's production by 2020. Gazprom Neft plans to expand its business by acquiring new licences for fields from the state unallocated subsoil reserve fund and by purchasing assets in Russia. Gazprom Neft intends to actively develop its foreign projects, so that they will account for 10% of its total hydrocarbon production by 2020.

Gas transportation and storage. We are developing new transportation facilities to ensure the transportation of gas from the new production regions, to provide a reliable supply of gas to Russian consumers and to satisfy our contractual export obligations. In determining the sequence of the implementation of our new gas transportation facilities, we take into account the projected timing for achieving efficient utilisation and optimal productivity of the existing gas transportation system and diversification of export routes. Our most significant current gas transportation projects are the construction of the Nord Stream pipeline from Russia to Germany under the Baltic Sea and the construction of the Bovanenkovo-Ukhta and Ukhta-Torzhok trunk pipelines for gas transportation from the Yamal Peninsula. We also plan to construct the South Stream pipeline for gas transportation from Russia to southern and central Europe and gas transportation routes to the Asian-Pacific countries.

One of our long-term goals is the development of gas transportation facilities in eastern Siberia and the Far East in accordance with the Eastern Programme. We have commissioned the first start-up complex of the Sakhalin-Khabarovsk-Vladivostok gas transportation system, we are conducting gasification of the Irkutsk region, and we have put into operation a pipeline from the Sobolevskiy region to Petropavlovsk-Kamchatskiy aimed at developing gas supplies in the Kamchatskiy region.

To implement our marketing strategy with respect to the European market, we are enhancing our presence in the European gas transportation and storage sector. For example, we are planning to build up the active capacity of our underground gas storage facilities abroad to 5% of our annual exports by 2030, with a priority to develop our own storage capacity.

Refining. We intend to increase our production of refined products, the extraction of valuable components from our gas, the depth of our feedstock processing and our refining throughput, primarily through refurbishment and modernisation of our existing processing capacities.

Our goal with respect to our refining and petrochemical activities is to increase the degree of extraction and effective utilisation of the valuable components of hydrocarbons that we produce, including associated gas, with the purpose of further processing such gases into forms with a higher added value. Based on the General scheme for the development of the gas industry through 2030, the processing of natural gas with a high concentration of ethane, propane, butane and other components in Russia may increase as high as 160 bcm by 2020. We expect these volumes to become the main resource base for our new petrochemical units. In accordance with the Eastern Programme, we are considering refining and petrochemical capacity construction projects in connection with the development of the resources of eastern Siberia and the Far East.

Our oil business development strategy provides for an increase in crude oil refining by Gazprom Neft to up to 70 million tons per year by 2020. We expect to reach this level by increasing the oil refining capacities of Gazprom Neft up to 40 million tons in Russia and up to 25-30 million tons abroad. To increase the efficiency of our foreign crude oil processing, Gazprom Neft intends to participate in refining capacities abroad and to enter into long-term processing agreements. However, expansion of our foreign crude oil processing is contingent on the implementation of plans to increase the production of crude oil. Gazprom Neft anticipates processing 40% of its crude oil in Russia and up to 30% of its crude oil abroad. Gazprom Neft expects to directly sell up to 30% of its oil in an unrefined state. Gazprom Neft also plans to implement programmes to improve the quality of the motor fuel that it produces, increase processing depth and intensify technical re-equipment of all oil refineries of the Group.

Marketing and sales. Our strategy in the Russian domestic market consists of ensuring a continuous gas supply to our domestic customers while improving our profitability. Among all domestic fuel resources, the Government regulates prices only for natural gas produced by us and our affiliates. Our main objective in the development of the domestic market is to achieve a transition from the regulation of our wholesale gas prices to the regulation of the natural monopoly tariffs for gas transportation through trunk pipelines for all gas suppliers. We propose: (i) maintaining state-regulated prices for gas supplies to households; (ii) introducing exchange trading of physical quantities of gas through electronic trading platforms; and (iii) forming a market sector for prices to be determined by contracting parties in long-term contracts and based on a transparent price formula. Resolution No. 1205 of the Government *On Improving State Regulation of Gas Prices*, dated December 31, 2010, provides for a phased increase of the regulated wholesale gas price in the transition period from 2011 through 2014 in order to achieve parity in terms of profitability with respect to supplies to the domestic market as compared to exports and also provides for the transitioning to a market pricing mechanism for all domestic gas consumers except households. See "—Gas Marketing—Russia" and "Risk Factors— We are required to supply a significant portion of natural gas to customers in Russia at prices that are regulated by the Government".

Our key objectives in the European market are to maintain our market-leading position, provide for reliable gas supply, and increase the efficiency of our marketing activities, which involves gaining access to end-users. We plan to achieve these objectives by developing relationships with traditional customers on a long-term contractual basis and using new forms of trade based on short-term and medium-term sales, as well as gas exchange, spot and one-time transactions. To consolidate our position in the European natural gas market and improve the reliability and flexibility of our gas supply, we intend to expand the use of UGSFs in Europe and increase our ownership in companies engaged in the sale of gas and electricity to end-users.

The key objective of our marketing strategy in the FSU countries is to ensure that Russian gas will continue to maintain its dominant position in the energy sector of such countries, while adjusting the pricing and other terms with respect to sales to the FSU customers to terms that are similar to those we currently have with our European customers. We have almost met our goal of achieving economically reasonable price levels in the FSU countries. See "—Gas Marketing—The FSU."

In order to ensure flexibility in determining which fields in the new gas-producing regions in Russia to develop, we are also seeking to cooperate with central Asian countries in developing gas reserves as well as upgrading and modernising gas transportation systems.

As part of our strategy to diversify the markets to which we supply gas, we consider countries in the Asian and Pacific regions as well as in North America as key new markets.

In respect of sales of oil refinery products, Gazprom Neft's strategic goal is to increase sales of premium refined products (i.e., sales with high margins) to 40 million tons per year through small wholesale networks, retail distribution networks and expansion of its gasoline station network in Russia and abroad by 2020. Gazprom Neft expects its existing processing facilities in Russia will allow it to achieve sales of up to 25 million tons of such products, including 12 million tons through its own gasoline station network, by 2020. In order to increase sales of such products to 40 million tons (including 18 million tons per year through its own gasoline station network), Gazprom Neft plans to expand its processing capacities outside Russia.

Electricity. We consider electricity to be a strategically important area for the development of our business. We believe that we can improve the stability of our business and achieve additional revenue by increasing our share of the power generation sector. Our strategic goal in this sector is to diversify tariff risks and realise synergies with our gas business. In implementing our electricity strategy in Russia, we plan to implement modernisation projects by constructing new highly effective combined-cycle power generating capacities, which would increase the volumes of heat and energy produced.

We received significant power generation assets during the power industry reform in Russia. We implement investment projects in power generation in accordance with the obligations assumed when acquiring power generation assets. We estimate our total generating capacity to reach 44 GW by 2020, due to the

commissioning of new capacities by our four major power generation subsidiaries. We also participate in investment projects for the construction of power plants in Russia.

We are considering investing in the construction of, and in acquiring, European electricity power assets to increase our efficiency and improve our position in the European electricity markets. We are also increasing our cooperation with utility companies that have a pre-existing client base and technology that we believe will expand our presence in the international electricity market.

Diversification of products and activities. To continue our development as a global energy company, we are integrating new products and activities with our traditional pipeline gas supplies.

One of our foreign trade priorities is the gradual implementation of the production and maritime transportation of LNG. Since 2005 we have performed LNG spot trading transactions and swap transactions, exchanging our pipeline gas for LNG. In April 2007, we acquired a 50% plus one share interest in Sakhalin Energy, the operator of the Sakhalin II project. In February 2009, an LNG plant that had been constructed as a part of the Sakhalin II project was put into operation. See "—Reserves and Production—Exploration, Development and Production regions—Russian sea shelf—Associated companies and development of associated projects in the region—Sakhalin II project."

We plan to further increase the volumes of our LNG trading. To implement our LNG strategy, we plan to establish new LNG production projects in Russia, participate in LNG projects abroad, purchase LNG from independent projects and develop our own LNG marketing business. We expect to establish LNG production on the Shtokmanovskoye field in Russia. We are also considering developing new LNG production capacities in the Russian Far East.

We anticipate targeting countries of the Asian-Pacific region and to a lesser extent countries of the Atlantic region and Europe as our primary markets for sales of LNG in the medium-term.

We are considering opportunities to produce SLFs using GTL technology. The development of an SLF industry would allow us to further diversify our businesses by producing high quality motor fuels and oil refinery products for sale to export markets, create a modern low cost transportation system from remote gas fields, and use low-pressure gas resources in processing and refining.

History and Privatisation

Prior to 1991, the Russian gas industry was controlled by the Ministry of the Gas Industry of the USSR. Pursuant to the Decree of the Council of Ministers of the USSR No. 619 of August 8, 1989, the state-owned gas concern Gazprom was founded in 1989. This state-owned concern was transformed into a joint stock company in accordance with the Decree of the President of the Russian Federation No. 1333 of November 5, 1992 ("Decree No. 1333") and Order No. 138 of the Council of Ministers of the Russian Federation dated February 17, 1993 ("Order No. 138"). Decree No. 1333 made us responsible for ensuring efficient operation of the UGSS. Decree No. 1333 and the Decree of the President of the Russian Federation No. 2116 of December 6, 1993 made us responsible for natural gas exports through VEP Gazexport (now renamed Gazprom Export), our wholly owned foreign trade subsidiary.

The Council of Ministers of the Russian Federation approved Gazprom's original Charter in Order No. 138, and Gazprom was registered as an open joint stock company under the laws of the Russian Federation on February 25, 1993.

Decree No. 1333 provided for the transfer to Gazprom of 100% of the share capital of federally owned enterprises (comprising the UGSS) and of controlling equity stakes (not less than 51%) in a number of other entities that had been reorganised into joint stock companies, the interests of State Gas Concern "Gazprom" in

Russian and foreign enterprises, and other assets of State Gas Concern "Gazprom," the privatisation of which was not restricted. Decree No. 1333 also provided for all rights and obligations of State Gas Concern "Gazprom" to inure to Gazprom's benefit, including its rights to use underground deposits and natural resources, as well as its rights and obligations under contracts.

Decree No. 1333, along with Directive No. 58-rp of the President of the Russian Federation dated January 26, 1993, our privatisation plan and certain other legislative acts issued by the President and the Government, provided for 40.0% of Gazprom's shares to be fixed in federal ownership.

In December 1998, 2.5% of Gazprom's shares owned by the state were sold through a privatisation auction. In 2005, we sold 10.74% of Gazprom's shares, which were held by certain of our subsidiaries, to Rosneftgaz, a wholly state-owned company, for total consideration of RR203,501.7 million (U.S.\$8.1 billion). As a result of this transaction, the Russian Federation controls more than 50% of Gazprom's shares. Pursuant to the Gas Supply Law, at least 50% plus one share of Gazprom, as the UGSS owner, must be retained in federal ownership for an indefinite period of time and may only be disposed of pursuant to federal law.

Corporate Structure

Gazprom is the holding company and the main operating company of the Gazprom Group. See "Listing and General Information" for a list of our significant subsidiaries.

We operate each of our core activities through a number of direct and indirect wholly or majority-owned subsidiaries. In addition, we hold direct and indirect equity interests in a number of other entities. Our subsidiaries include entities involved in production, transportation, refining and marketing of natural gas, gas condensate, crude oil and electricity, and subsidiaries responsible for a number of other activities, including technical supervision of our pipeline systems, well drilling, research and development, telecommunications, data processing and procurement.

Our management analyses the results of our operations, assets and liabilities within the operating segments based on internal financial reporting. The results of certain significant transactions and events, including business acquisitions as well as certain adjustments, which may be required to conform the Group's internal financial reporting to the respective figures as reported in the consolidated financial statements prepared in accordance with IFRS, are analysed by our management on a consolidated basis without separately identifying relevant operating segments. Profits and losses from financial assets available for sale, income and financing costs are also not separated into operating segments. In accordance with IFRS 8, we separate our operations into the following principal businesses (segments):

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

We include other operations into the "All other segments" segment.

Our head office, located in Moscow, exercises managerial and financial control over the operations of our subsidiaries. Head office functions include strategy, planning, external financing, financial reporting, including preparation of the IFRS consolidated financial statements of Gazprom and the Group, allocation of financial resources and supervision of principal areas of operations, such as construction, drilling, production, transportation, some natural gas sales in Russia and the FSU and equipment procurement. The dispatch management centre, based at our head office, continuously monitors, controls and manages our natural gas transportation system throughout Russia.

In order to improve our corporate structure, since 2004 we have been implementing an internal restructuring, which provides for division of cash flows by type of activity to ensure transparency and validity of tariffs applied by our subsidiaries engaged in production and transportation of natural gas and liquid hydrocarbons. In furtherance of these objectives, we transformed our subsidiaries that were involved in multiple sectors of the gas business, such as natural gas production, processing, transportation and underground storage, into subsidiaries focused on one of these sectors.

In 2010, we took certain measures to optimise the ownership structure of gas production and sales assets overseas and improved Gazprom's administration management structure. We are also working to bring the corporate structures of our subsidiaries in line with our own corporate standards. We are also completing a process of the transition of our subsidiaries to a unified corporate identity which includes, amongst other things, incorporating the word "Gazprom" within the names of such subsidiaries.

In June 2008, at the general shareholders meeting of Gazprombank, the shareholders elected the new board of directors of Gazprombank. Five of the twelve newly elected board members are representatives of Gazprom Group. As a result of the election, however, we lost our ability to control the financial and operating policies of Gazprombank and its subsidiaries, including Sibur Holding and its subsidiaries and Gazprom-Media Group ("Gazprombank Group") and, therefore, ceased to report on companies controlled by Gazprombank Group as our subsidiaries. Because the Group exercises significant influence over operations of Gazprombank Group, the latter is included in our financial statements as an associated company.

The legal name of our parent company is OAO Gazprom. Gazprom's registered address is 16 Nametkina Street, 117997 Moscow, Russian Federation, its telephone number is +7 495 719 3001 and its fax number is +7 495 719 8333. Gazprom is an open joint stock company organised under the laws of Russia, initially registered on February 25, 1993. Gazprom was issued certificate 1027700070518 of entry into the Unified State Register of Legal Entities on August 2, 2002 by the Ministry of Taxes and Duties of the Russian Federation.

Investment Programme

We allocate expenditures and capital investments in accordance with a three-year financial plan which is reviewed by Gazprom's Board of Directors annually. Gazprom's Investment Programme, which is included within the financial plan, is approved annually by the Board of Directors and may be updated in light of our financial situation and strategic priorities. The Investment Programme is divided into two main sections: capital investments and long-term financial investments. We generally make long-term financial investments with a view to acquire shareholdings in other companies and to participate in joint projects with third parties. Capital investments made pursuant to the Investment Programme (such as the creation and acquisition of certain fixed assets) are made by Gazprom and are then subsequently leased to certain of our subsidiaries, especially those engaged in the operation of the UGSS. The capital investment programme, however, does not cover capital investments made by certain of our subsidiaries that we acquired after our privatisation, such as Gazprom Neft, Mosenergo, OGC-2, OGC-6, TGC-1, OAO Vostokgazprom ("Vostokgazprom") and Zapsibgazprom. Generally, these subsidiaries establish their own capital investment plans.

In November 2010, the Board of Directors approved Gazprom's investment programme for the year 2011 providing for total investments of RR816.4 billion, including capital expenditure of RR729.9 billion and long-term financial investments of RR86.5 billion.

On September 27, 2011, Gazprom's Board of Directors approved its revised Investment Programme for the year 2011, providing for a total investment of RR1,276.5 billion, including capital expenditure of RR1,186.7 billion and long-term financial investments of RR89.8 billion. The revised Investment Programme for 2011 provides for capital investments of approximately RR317 billion for the production of gas, RR5 billion for the production of crude oil and gas condensate, RR784 billion for transport, RR8 billion for distribution, RR11 billion for refining and RR26 billion for gas storage, during the year 2011. Capital investments for all other segments are expected to amount to RR36 billion.

According to the revised Investment Programme for 2011, the main investments in our gas production segment for 2011 are allocated to the implementation of the following key projects (and in the following amounts): the construction of facilities on the Bovanenkovskoye gas condensate field on the Yamal Peninsula (RR57.6 billion) and the construction of the Obshchaya-Bovanenkovo railroad (RR16.2 billion), maintaining current production on our three major fields, the Medvezhye, Urengoyevskoye and Yamburgskoye fields (RR28.5 billion); the development of Kirinskoye field (RR33.1 billion), the development of the Nydinsky area of the Medvezhye field (RR4.4 billion), the development of the Zapolyarnoye field (RR21.6 billion) the development of the Shtokmanovskoye field (RR1.9 billion in long-term financial investments), the Prirazlomnoye oil field (RR22.5 billion in long-term financial investments); the development of the Kshukovskoye and the Nizhne-Kvakchikovskoye fields in eastern Siberia (RR8 billion), field development projects abroad (RR17.8 billion in long-term financial investments).

According to the revised Investment Programme for 2011, in our gas transportation segment for 2011, we have budgeted RR50.1 billion for the reconstruction and technical re-equipping of the UGSS, RR259.9 billion for the construction of the Bovanenkovo-Ukhta pipeline system, RR89.5 billion for the construction of the Ukhta-Torzhok pipeline, RR85.6 billion for the construction of the Gryazovets-Vyborg twin pipeline, RR28.9 billion for the construction of the Pochinki-Gryazovets pipeline, RR15.7 billion for the construction of the SRTU-Torzhok pipeline, RR7.6 billion for the construction of the Dzhubga-Lazarevskoye Sochi pipeline, RR144.4 billion for the construction of the Sakhalin-Khabarovsk-Vladivostok pipeline, RR15.2 billion for the construction of a gas pipeline from the Kirinskoye onshore processing facility to the Sakhalin main compressor station, RR6.3 billion for the construction of a gas pipeline from the comprehensive gas treatment unit No.2 of the Nizhne-Kvakchikovskoye gas and condensate field to the automated gas distribution station at Petropavlovsk-Kamchatsky and RR6.5 billion of long term financial investments for the construction of the Nord Stream pipeline.

In addition to Gazprom's Investment Programme, the gasification programme for Russian regions provides for the investment of RR25.0 billion in the construction of gas distribution networks in 2011. The investments allocated to regional gasification are included in the Gazprom mezhrayonnyy Investment Programme.

Gazprom Neft's investments (not included in Gazprom's Investment Programme) are expected to be RR170.9 billion in 2011, of which RR60.6 billion are anticipated to be allocated for exploration and production (including RR22.0 billion for the development of the Priobskoye field), RR23.6 billion for oil refining, RR15.4 billion for the marketing of oil refined products, RR2.7 billion for oil field servicing, RR14.1 billion for reconstruction and modernisation of refining capacities of NIS, and RR2.1 billion for the reconstruction and adjustment of the distribution network of Sibir Energy to appropriate corporate standards. Gazprom Neft plans to allocate RR48.4 billion for long-term financial investments and acquisition of non-current assets, and other investments amount to RR4.1 billion.

In 2011, the investments of our power generation subsidiaries are expected to be approximately RR74.4 billion. In addition, RR11.2 billion is planned to be allocated to the Adler thermal power plant project.

Joint Ventures and Alliances

Our material alliances and joint ventures are described below. See "Risk Factors—Risks Relating to Our Business—We may not be successful in our efforts to integrate recent or future acquisitions and we may be

unable to finance acquisitions we believe could be beneficial to our existing operations on terms desirable to us or at all."

ArmRosGazprom. We have entered into an agreement with the Armenian government which outlines strategic principles for cooperation in the development of the Armenian energy industry and provides for the construction of the Iran-Armenia pipeline (See "—Transport—International projects in gas transportation") and the completion and modernisation of the fifth unit of the Razdan thermal power plant (See "Electric and heat energy generation and sales—FSU and Europe and Other Countries").

BASF/Wintershall. In 2004 and 2007, we signed agreements with BASF (acting through Wintershall Holding GmbH ("Wintershall Holding")) regarding the joint development of block 1A of the Urengoykoye field (Achimov deposits) (see "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Urals federal district)—Associated companies and development of associated projects in the region—Achimgaz") and the Yuzhno-Russkoye field (see "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Urals federal district)—Yuzhno-Russkoye field"). In addition, we hold a 49% interest in Wintershall GmbH, which develops two oil concessions in Libya (see "—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Libya"), as well as a 49.98% interest in WINGAS, the rest of which is held by Wintershall Holding through its wholly owned subsidiary, Wintershall Erdgas Beteiligungs GmbH (see "—Transport—Existing routes of gas export and participation in foreign gas distribution networks—WINGAS"). Together with BASF, Gasunie, E.ON, and Gaz de France Suez Switzerland AG ("GDF Suez") we are shareholders of Nord Stream AG (in which Wintershall Holding holds a 20% interest), which constructs the Nord Stream pipeline (see "—Transport—International projects in gas transportation—Nord Stream"). We also hold a 50% interest in Wintershall Erdgas Handelshaus GmbH & Co. KG ("WIEH"), the remaining interest of which is held by Wintershall through its wholly owned subsidiary Wintershall Erdgas Beteiligungs GmbH. Wintershall Erdgas Handelshaus Zug AG ("WIEE"), a wholly owned subsidiary of WIEH, is engaged in supplying natural gas to eastern Europe. In March 2011, in connection with the South Stream project, we signed a memorandum of understanding with Wintershall Holding, pursuant to which Wintershall Holding is expected to join the offshore part of the project. The memorandum of understanding also stipulates conclusion of new long-term contracts for the supply of natural gas to WIEE. In September 2011, a shareholders' agreement for the offshore section of the South Stream project was signed, pursuant to which Wintershall Holding acquired a 15% share in the offshore section of the same.

Beltransgaz. In May 2007, we entered into an agreement with the Republic of Belarus to acquire 50% of Beltransgaz for U.S.\$2.5 billion pursuant to several payments. In February 2010, we made a final payment of U.S.\$625 million for a 12.5% interest in Beltransgaz thus increasing our interest in the company to 50%. We are currently considering increasing our stake in Beltransgaz up to 100% and are engaged in discussions regarding the same. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisitions, Dispositions and Changes in Control."

Central Asia. In order to create effective industrial cooperation with other countries in the region and to further strengthen our market position, we intend to make significant contributions to the recovery and development of the oil and gas industry in central Asia. In furtherance of this goal, we signed agreements with several national oil and gas companies and the governments of Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan. These agreements provide for cooperation and joint participation in hydrocarbon exploration, field infrastructure development, production, construction, diagnostic and refurbishment of gas transportation and storage facilities as well as the establishment of joint ventures for these purposes. The Group also participates in joint exploration and production projects in Uzbekistan.

We have also entered into long-term strategic cooperation agreements regarding our natural gas sales in central Asia and long-term transit agreements with the transit countries in central Asia. See "—Gas Marketing—Cooperation with FSU countries in gas marketing."

EDF. In November 2009, we signed a memorandum of understanding with EDF with respect to the potential participation of EDF in the construction of the offshore part of the South Stream pipeline, entering into new gas supply contracts and joint projects in the power sector. See "—Transport—International projects in gas transportation—South Stream."

Eni/Enel. We have signed an agreement on strategic alliance with Eni. Eni is our partner and a shareholder in South Stream AG, which was established for the construction of the offshore part of the South Stream pipeline. See "—Transport—International projects in gas transportation—South Stream." In April 2009, we exercised an option to purchase a 20% interest in Gazprom Neft from Eni for U.S.\$4.1 billion. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Certain Acquisitions, Dispositions and Changes in Control."

In September 2011, we also signed a shareholders' agreement for the offshore section of the South Stream project with Eni, BASF and EDF, pursuant to which BASF (acting through Wintershall Holding) and EDF, each acquired a 15% share in the offshore section of the South Stream Project through a 30% reduction in Eni's stake. As a result, Eni now holds a 20% stake while Gazprom holds a 50% stake, with Wintershall Holding and EDF holding a 15% stake each.

In February 2011, we signed the first part of our Agreement with Eni in relation to the Elephant Project PSA in Libya. As per the terms of the Agreement, subject to its approval by the Libyan party, our participation in the project could be 33.3%. However, citing force majeure due to the hostilities in Libya our participation in the project has been postponed for an indefinite period. See "—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Libya."

In September 2009, we completed the acquisition of a 51% interest in OOO SeverEnergia ("SeverEnergia") from the Eni/Enel joint venture for approximately U.S.\$1.6 billion. In late 2010, as a result of the sale of our 51% in SeverEnergia to OOO Yamal Razvitie, a joint venture between Gazprom Neft and OAO Novatek, the Group's share in SeverEnergia was reduced to 25.5%. See "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Urals federal district)—Associated companies and development of associated projects in the region—Yamal Razvitie."

E.ON. We have signed an agreement with E.ON (acting through E.ON Ruhrgas and E.ON Ruhrgas E&P GmbH) to exchange assets in the production and marketing of natural gas which provides for the joint development of the Yuzhno-Russkoye field. See "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Urals federal district)—Major fields in long-term production—Yuzhno-Russkoye field." In addition, together with E.ON, BASF, Gasunie and GDF Suez, we are shareholders of Nord Stream AG, which constructs the Nord Stream pipeline. See "—Transport—International projects in gas transportation and storage—Nord Stream."

Gasunie. Together with Gasunie, E.ON, BASF and GDF Suez, we are shareholders of Nord Stream AG, which constructs the Nord Stream pipeline. See "—Transport—International projects in gas transportation—Nord Stream."

GDF Suez. In June 2010, GDF Suez joined the Nord Stream consortium. In July 2010, GDF Suez acquired a 9% interest in Nord Stream AG. See "—Transport—International projects in gas transportation—Nord Stream."

Libyan National Oil Company. Pursuant to the production sharing agreement that we have signed with Libyan National Oil Company, we conduct exploration works and develop a number of licensed areas in Libya. See "—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Libya."

Lukoil. Pursuant to a strategic cooperation agreement with Lukoil and subject to the limits described therein, we have established TsentrCaspNeftegaz, a joint venture which participates in the development of the Central geological structure in the Caspian Sea. See "—Reserves and Production—Exploration, Development and Production regions—Russian sea shelf—Associated companies and development of associated projects in the region—Central geological structure."

Naftogaz of Ukraine. We signed a memorandum with the National Joint Stock Company Naftogaz of Ukraine providing for the establishment of a joint venture to develop coal bed methane in Ukraine. See "—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Ukraine."

National Oil Consortia. In 2009, Gazprom Neft acquired a 20% interest in the charter capital of OOO National Oil Consortia ("NOC") which was established to implement projects in oil production in Latin America. See "—Reserves and Production—FSU and Europe and other Countries—Associated companies and development of associated projects in the region—Venezuela".

OMV. We have signed an agreement with OMV regarding participation in the Central European Gas Hub ("CEGH"). See "—Transport—International projects in gas transportation—Central European Gas Hub."

PdVSA. We have entered into a memorandum of understanding with Venezuelan Petróleos de Venezuela SA ("PdVSA") which provides for a wide range of opportunities for cooperation. See "—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Venezuela."

Petrobras. We have entered into a memorandum of understanding with Petrobras, a Brazilian company, which provides for a wide range of opportunities for cooperation, including joint participation in production projects in Brazil.

Petrovietnam. We have signed an agreement with Petrovietnam, pursuant to which our joint-venture Vietgazprom performs exploration works on the Vietnamese continental shelf. We have also established another joint-venture OOO "Gazpromviet" ("Gazpromviet") to perform works in Russia and other countries. See "—Reserves and production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Vietnam."

RAG, Verbundnetzgas, Vitol. We have signed a number of agreements extending our participation in gas storage in Europe. See "—Transport—Gas storage—Gas storage in Europe."

Renova. We have signed an agreement of intent ("Agreement of Intent") with the Renova Group (the "Renova Group") to merge our respective power assets into OOO Gazprom energoholding ("Gazprom energoholding"). It is envisaged that we will receive up to 75% of the equity less one share and that the Renova Group will receive at least 25% of the equity plus one share in the proposed merged entity. See "—Electric and heat energy generation and sales —Russia."

RWE. In July 2011, we signed a memorandum of understanding with RWE, which provides for a strategic partnership in the sphere of electricity production in Europe.

The "Big Gas Three". In October 2008, Gazprom representatives and representatives of gas producing branches from Iran and Qatar agreed to hold regular meetings of the "Big Gas Three" to discuss important issues with respect to the development of the natural gas market. An agreement was reached which provides for the establishment of the High Technical Committee composed of representatives from Russia, Iran and Qatar, which will co-ordinate the joint execution of potential natural gas projects.

Total and Statoil. We have signed agreements with Total and Statoil regarding the joint development of the Shtokmanovskoye field. In June 2009, we signed a memorandum of understanding with Statoil which provides for implementation of joint projects in geological exploration, development and production of hydrocarbons in the northern regions of Russia and Norway. See "—Reserves and Production—Exploration, Development and Production regions—Russian sea shelf—The Barents Sea Shelf—Shtokmanovskoye field."

Yamal Razvitie. In order to jointly develop fields in Western Siberia, Gazprom Neft and Novatek created Yamal Razvitie, a joint venture in which both parties own a 50% stake each. Yamal Razvitie is in turn the controlling shareholder of SeverEnergiya. See "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Urals federal district)—Associated companies and development of associated projects in the region—Yamal Razvitie."

YPFB. We have signed a memorandum of understanding with YPFB, a Bolivian company, regarding a wide range of cooperation lines. See "—Reserves and Production—Exploration, Development and Production regions—FSU and Europe and Other Countries—Associated companies and development of associated projects in the region—Bolivia."

Other activities. In 2009, we signed an agreement with the Nigerian National Petroleum Corporation to establish a new joint venture. The agreement provides the basis for joint hydrocarbon production (including LNG), transportation and sale activities with Nigerian National Petroleum Corporation.

We also hold interests in a number of companies that supply natural gas to consumers in Austria, Bulgaria, Finland, the United Kingdom, Italy, Greece, Serbia, Turkey and the Czech Republic.

Reserves and Production

This section contains information relating to our Production of gas segment and Production of crude oil and gas condensate segment as regards exploration and production. For information in relation to sales of crude oil and gas condensate, see "—Sales of liquid hydrocarbons and refined products".

We believe that we are the world's largest producer of natural gas. Based on International Natural Gas Center "CEDIGAZ" (source: www.cedigaz.com) and Gazprom figures, we produced approximately 15% of the world's natural gas in 2010. Our major reserves and production areas are western Siberia, southern Russia, the South Urals region and northern European Russia. We also conduct operations in eastern Siberia and the Far East, the Russian sea shelf and in certain countries in the FSU and Europe and Other Countries regions.

We operate our production activities through our production subsidiaries, which develop and operate our hydrocarbon fields. Natural gas and gas condensate production is carried out mainly by our wholly owned subsidiaries. Our subsidiary Gazprom Neft produces the majority of our crude oil, principally through fields located in western Siberia. Our well-drilling operations are carried out by our subsidiary OOO Gazflot, the drilling departments of some of our subsidiaries and third-party contractors. In addition, we participate in a number of exploration and production projects and joint ventures with Russian and foreign partners.

Financial highlights

Production of gas segment operates in exploration and production of gas and its sales mainly consist of inter-segment gas sales to Distribution segment and Refining segment.

The following table sets forth selected financial data with regard to our Production of gas segment as defined in our financial statements prepared in accordance with IFRS.

	Production of gas				
	As of and for the three month period ended March 31,		As of and for the year ended December 31, ⁽¹⁾		As of and for the year ended December 31, ⁽²⁾
	2011	2010	2010	2009	2009
	Unaudited		Audited	Unaudited Revised	Audited
Assets, million RR.....	1,470,851	1,519,361	1,466,058	1,438,222	1,438,222
Share of Group's total assets, %	15%	16%	15%	17%	17%
Sales, ⁽³⁾ million RR.....	1,993	2,067	6,394	5,473	13,665
Share of Group's total sales, %.....	0%	0%	0%	0%	0%
Capital additions, million RR.....	46,614	39,409	215,236	218,921	218,921
Share of Group's total capital additions, %.....	26%	28%	23%	33%	33%

Note:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.
- (3) Excluding inter-segment and intra-segment operations.

Production of crude oil and gas condensate segment operates in exploration and production of oil and gas condensate, sales of crude oil and gas condensate and its sales mainly consist of inter-segment sales of oil and gas condensate to the Refining segment for further refining and sales to third parties.

The following table sets forth selected financial data with regard to our Production of crude oil and gas condensate segment as defined in our financial statements prepared in accordance with IFRS.

	Production of crude oil and gas condensate				
	As of and for the three month period ended March 31,		As of and for the year ended December 31, ⁽¹⁾		As of and for the year ended December 31, ⁽²⁾
	2011	2010	2010	2009	2009
	Unaudited		Audited	Unaudited Revised	Audited
Assets, million RR.....	1,112,039	1,124,474	1,094,309	1,124,222	1,122,449
Share of Group's total assets, %	11%	12%	11%	13%	13%
Sales, ⁽³⁾ million RR.....	57,345	44,584	196,074	176,403	176,403
Share of Group's total sales, %.....	4%	4%	5%	6%	6%
Capital additions, million RR.....	23,102	23,457	95,289	84,749	84,749
Share of Group's total capital additions, %.....	13%	17%	10%	13%	13%

Note:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.
- (3) Excluding inter-segment and intra-segment operations.

Reserves categories

We estimate our hydrocarbon reserves in accordance with the Russian reserves system and under PRMS Standards. The Russian reserves system differs significantly from PRMS Standards, in particular with respect to the manner in which and extent to which commercial factors are taken into account in calculating reserves. In addition, PRMS Standards differ in certain material respects from current SEC Standards. If we applied SEC standards our estimated proved natural gas, gas condensate and crude oil reserves could potentially

be lower than under PRMS Standards. For a description of the Russian reserves system, PRMS Standards, SEC Standards and the principal differences between them, see "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Classification of Reserves." Unless otherwise specified, this Prospectus provides information on explored reserves in accordance with the Russian reserves system or ABC₁ reserves.

Reserves

Most of our reserves are concentrated in very large fields, each with ABC₁ natural gas reserves of more than 500 bcm. Approximately 40% of our ABC₁ natural gas reserves are in Cenomanian deposits, which are characterised by low bedding depth, high delivery rates of wells and dry natural gas.

The following table shows our total ABC₁ natural gas, gas condensate and crude oil reserves in accordance with the Russian reserves system, and the percentage share of our ABC₁ reserves evaluated in accordance with the PRMS Standards, as well as our proved, probable and possible reserves determined as a result of this evaluation, as of the dates indicated. We annually publish as part of our annual reports information in relation to our reserves and results of our exploration activities in accordance with PRMS Standards. The correlation between ABC₁ reserves and proved, probable and possible reserves may differ in the fields that have not yet been evaluated. Moreover, the correlation may vary at different times for the same fields.

	As of December 31,			As of December 31,		
	2010	2009	2008	2010	2009	2008
	Gas, bcm			Gas, mmboe		
ABC ₁ reserves (Russian reserves system).....	33,052.3	33,578.4	33,123.2	194,678.0	197,776.8	195,095.6
of which percentage evaluated under PRMS Standards ⁽¹⁾	93%	89%	88%	93%	89%	88%
Proved (PRMS Standards)	18,991.3	18,609.9	18,187.8	111,858.8	109,612.3	107,126.1
Probable (PRMS Standards)	3,529.0	3,338.1	3,088.2	20,785.8	19,661.4	18,189.5
Proved + probable (PRMS Standards).....	22,520.3	21,948.0	21,276.0	132,644.6	129,273.7	125,315.6
Possible (PRMS Standards)	4,608.4	4,199.9	4,192.7	27,143.5	24,737.4	24,695.0
	Gas condensate, million tons			Gas condensate, mmboe		
ABC ₁ reserves (Russian reserves system).....	1,284.8	1,325.1	1,287.1	10,509.7	10,839.3	10,528.5
of which percentage evaluated under PRMS Standards ⁽¹⁾	86%	82%	85%	86%	82%	85%
Proved (PRMS Standards)	572.1	586.0	587.9	4,679.8	4,793.5	4,809.0
Probable (PRMS Standards)	147.2	141.2	141.9	1,204.1	1,155.0	1,160.8
Proved + probable (PRMS Standards).....	719.3	727.2	729.8	5,883.9	5,948.5	5,969.8
Possible (PRMS Standards)	606.9	624.5	611.6	4,964.4	5,108.4	5,002.9
	Crude oil, million tons			Crude oil, mmboe		
ABC ₁ reserves (Russian reserves system).....	1,732.9	1,785.0	1,601.7	12,702.2	13,084.1	11,740.5
of which percentage evaluated under PRMS Standards ⁽¹⁾	90%	85%	92%	90%	85%	92%
Proved (PRMS Standards)	717.4	718.5	713.2	5,258.5	5,266.6	5,227.8
Probable (PRMS Standards)	464.5	435.5	565.0	3,404.8	3,192.2	4,141.4
Proved + probable (PRMS Standards).....	1,181.9	1,154.0	1,278.2	8,663.3	8,458.8	9,369.2
Possible (PRMS Standards)	609.8	560.9	807.1	4,469.8	4,111.4	5,916.0
	Gas, gas condensate, crude oil, mmboe					
ABC ₁ reserves (Russian reserves system).....				217,889.9	221,700.2	217,364.6
of which percentage evaluated under PRMS Standards ⁽¹⁾				92%	88%	88%
Proved (PRMS Standards)				121,797.1	119,672.4	117,162.9
Probable (PRMS Standards)				25,394.7	24,008.6	23,491.7
Proved + probable (PRMS Standards).....				147,191.8	143,681.0	140,654.6
Possible (PRMS Standards)				36,577.7	29,845.8	35,613.9

Note:

- (1) This percentage figure relates to the total percentage of ABC₁ reserves (which are measured in accordance with the Russian reserves system) that are also evaluated in accordance with the PRMS Standards. This demonstrates that the majority of the reserves evaluated in accordance with the Russian reserves system have also been evaluated in accordance with the PRMS Standards. The actual figures for Proved, Probable and Possible reserves in this table have been calculated in accordance with the PRMS Standards.

The following table shows the ABC₁ natural gas, gas condensate and crude oil reserves of our associated companies pro rata to our effective interests therein as of the end of the respective periods.

	As of December 31,		
	2010	2009	2008
Natural gas (bcm).....	645.4	917.2	720.9
(bboe).....	3.8	5.4	4.2
Oil and gas condensate (million tons).....	669.6	714.9	680.0
(bbbls).....	5.0	5.3	5.0
Total (bboe).....	8.8	10.7	9.2

ABC₁ hydrocarbon reserves in 2010 declined against the reserves figures in 2009, primarily as a result of the change in our share in SeverEnergy from a controlling 51% to 25.5% in late 2010. See "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Urals Federal District)—Associated companies and development of associated projects in the region—Yamal Razvitie." Compared to the appraisal as of December 31, 2009, our proven and probable reserves increased, mainly owing to the inclusion in the PRMS audit of reserves of the Antipayutinskoye and Severo-Tambeyskoye fields in the Yamal Nenets Autonomous District, and also owing to reserves growth as a result of exploration at several fields undergoing audit in accordance with international standards. Our hydrocarbon reserves abroad as of December 31, 2010 and 2009 were estimated as insignificant at less than 1% of ABC₁ reserves in Russia on the above dates.

Most of our hydrocarbon licences were granted between 1993 and 1996. See Appendix A, "Certain Exploration and Production Information of the Gazprom Group—Licences." The licences impose certain obligations on us to provide employment, develop local infrastructure, pay local and federal taxes and meet certain environmental requirements. Licences may be suspended or revoked if we fail to comply with their terms. None of the licences for our major natural gas fields expires prior to 2012. A subsoil user has the right to request an extension of the term of the licence in order to complete the exploration, assessment and development of the natural resources until the end of a field's exploitation period if such user complies with the terms and conditions of the licence. We believe that we are in material compliance with our licence agreements, and that we will be entitled to extend them to the full economic lives of the associated fields upon the expiration of their primary terms. Currently, there have been no suspensions of production as a result of decisions by the relevant federal and regional authorities. See "Risk Factors—Risks Relating to Our Business—Our licences may be suspended, amended or terminated prior to the end of their terms, and we may not be able to obtain or maintain various permits and authorisations" and "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Subsoil licensing."

In September 2008, in accordance with resolutions of the Government, we obtained licences for a number of fields of federal importance. In particular, we obtained licences for the following fields: (i) Zapadno-Tambeyskoye, Kruzenshternskoye, Malyginskoye, Severo-Tambeyskoye and Tasiyskoye fields in the Yamal Peninsula, Semakovskoe on the Tazovsky Peninsula (and in part on the Tazovskaya Bay shelf), Antipayutinskoye and Tota-Yakhinskoye in the Gydan Peninsula, all of which are in western Siberia; (ii) Kirinskoye on the shelf of the Okhotsk Sea and (iii) Chayadinskoye in the Sakha (Yakutiya) Republic in eastern Siberia. The total ABC₁ reserves of the fields amounts to 3.3 tcm of natural gas and 143.2 million tons of gas condensate and crude oil.

In June 2009, in accordance with an order of the Government dated June 15, 2009 No. 787-r, we were granted rights to subsoil use of the Kirinskiy, Ayashskiy, Vostochno-Odoptinskiy areas of the Sakhalin-III project and Zapadno-Kamchatskiy area of the Okhotsk sea shelf with forecasted resources of approximately 3 tcm of natural gas and 1 billion tons of crude oil.

In 2010, we obtained ten licences, including seven licences based on the discovery of fields. However, during 2010, we surrendered twenty one subsoil use licences: seven of those upon expiry and the remainder fourteen licences pursuant to resolutions on early relinquishment of subsoil use rights due to further operations not being worthwhile. Licences for eighteen fields were extended.

In late 2010, as a result of our share in SeverEnergiya reducing to a non controlling stake, we discontinued the inclusion of the licences held by Sever Energiya as part of the list of our licences.

Exploration activities

We are continually engaged in the exploration for new deposits of natural gas and crude oil. These activities include exploratory drilling and geophysical activities in our existing production licence areas and fields, and new areas for which we hold licence. We perform our exploration activities in Russia in accordance with the Programme for Mineral Resource Base Development in the Gas Industry until 2035 (the "Programme"), approved by the Management Committee in June 2011. The Programme provides for an increase of our reserves through geological exploration to 20.3 billion tce in Russia between 2011 and 2035. We perform exploration drilling in western and eastern Siberia as well as southern Russia, the Far East and in other regions in Russia and abroad, including in Algeria, Bolivia, Equatorial Guinea, Libya, Venezuela and Central Asia. See "— Exploration, Development and Production regions—FSU and Europe and Other Countries."

In 2010, as a result of our geological exploration activities, we discovered 547.7 bcm of natural gas reserves and 115.5 million tons of oil and gas condensate, of which Gazprom Neft accounted for 0.7 bcm of natural gas and 49.2 million tons of crude oil. Most of the discoveries from our exploration works are subject to application to government authorities for licences. We have a pre-emptive right to receive these licences.

In 2010, three new fields were discovered through our geological exploration work in Russia, including Yuzhno-Kirinskoye, a large gas condensate field on the Okhotsk Sea shelf within the Kirinsky licence area, the Abakanskoye gas field in the Krasnoyarsk Region, the Severo-Vakunaiskoye oil field in the Irkutsk Region and twenty six new deposits.

The main sources of hydrocarbon reserves growth across the previously discovered fields in the C₁ category were the Chayandinskoye field in the Republic of Sakha (Yakutia) and the Antipayutinskoye and Totayakhinskoye fields in the Obshchaya and Tazovskaya bays.

As part of our geological exploration projects overseas, in 2010 we discovered hydrocarbon reserves within the perimeter of the El Assel licence area in the Berkine Basin in Algeria and at the Dzhelez area on the Ustyurt plateau in Western Uzbekistan.

Reserve replacement ratio

In July 2006, the Board of directors approved the adoption of key strategic indicators for a period of ten years, including that the reserve replacement ratio was to be maintained at or above 100%. Our aggregate natural gas, gas condensate and crude oil reserve replacement ratio was 124% and 115% in the years ended December 31, 2010 and 2009, respectively. We do not include reserve life among our key strategic indicators. However, if our proved and probable natural gas, gas condensate and crude oil reserves are divided by our aggregate natural gas, gas condensate and crude oil production figures, the resulting reserve life ratio would be equal to approximately 44 and 48 years as of December 31, 2010 and 2009, respectively. This decrease in 2010 was primarily due to increased production in 2010 as compared to 2009.

Production costs

Our hydrocarbon production costs largely reflect the geographic location of our fields, the geological composition of the hydrocarbon deposits under production as well as the cost of operating the infrastructure that is necessary to sustain our production levels.

Current production costs at our mature leading fields will likely increase because we expect to be required to use more expensive extraction techniques to compensate for declining pressure in the deposits in order to extract natural gas from deeper, more geologically complex deposits. At the first stage of development,

production costs at our fields in the Yamal Peninsula are also expected to be high because of challenging climatic conditions in the area, geographic remoteness and special environmental requirements. We expect the production costs to decrease when the fields reach their projected capacity. We also seek to mitigate challenging conditions of production by developing and using new technologies.

Production

The following table sets forth our summary production data for the periods indicated.

	For the year ended December 31,		
	2010	2009	2008
Natural gas (bcm)	508.6	461.5	549.7
(mmboe)	2,995.6	2,718.4	3,237.9
Gas condensate (million tons)	11.3	10.1	10.9
(mmbls)	92.4	82.4	89.4
Crude oil (million tons)	32.0	31.6	32.0
(mmbls)	234.6	231.8	234.9
Total (mmboe)	3,322.6	3,032.5	3,562.3

In 2010, our natural and associated gas production in Russia amounted to 508.6 bcm, which was 10% higher than in 2009. Our major fields where production was limited due to an unfavorable economic environment in 2009 were brought to their design level of production in 2010. More than 50% of the increase in natural gas production was achieved at the Zapolyarnoye field. In the first half of 2011, we continued to increase the volumes of gas production due to a recovery of gas demand in our principal markets following the decrease of demand experienced in 2009.

The increase in our crude oil and gas condensate production in 2010 against 2009 was also mainly due to a recovery of demand following the decrease of demand in 2009 caused by the global economic crisis.

Exploration, Development and Production regions

We are focusing our exploration and development activities in gas and oil fields in western Siberia and the fields in close proximity to our large developed fields in western Siberia. In order to reach the long-term projected levels of gas production, we intend to develop new strategic fields in the Yamal Peninsula in western Siberia, the Russian sea shelf, eastern Siberia and the Far East. In addition, we are participating in exploration and production projects in the FSU and Europe and Other Countries (in Vietnam, India, Libya, Algeria, Bolivia, Venezuela, Iraq, Equatorial Guinea and in Central Asian countries).

The terms and timeline of the projects described below in this section may be revised due to changes in demand for our products.

Western Siberia (Urals federal district)

This is our main region for the production of natural gas, gas condensate and crude oil. It is characterised by severe weather conditions. Over 70% of our proved hydrocarbon reserves and over 90% of our hydrocarbon production are concentrated in this region. Our wholly owned production subsidiaries OOO Gazprom Dobycha Nadym, OOO Gazprom Dobycha Urengoy, OOO Gazprom Dobycha Yamburg, OOO Gazprom Dobycha Noyabrsk, and OOO Gazprom Transgaz Yugorsk operate in this region, as does Purgaz, of which we own 51%, and Severneftegazprom, of which we own 50% plus six voting shares which is equal to a 40.0004% interest in its share capital. Our major producing gas fields, consisting of the Yamburgskoye, Medvezhye, Urengoyskoye and Zapolyarnoye gas fields are located in this area. In addition, most of Gazprom Neft's oil reserves and production capacities are located in western Siberia. Gazprom Neft's most significant fields located in western Siberia are the Sugmutskeye, Priobskoye, Vyngapurovskoye, Sporyshevskoye and Sutorminskoye fields.

Most of the oil produced by Gazprom Neft in the region is classified as "Siberian Light crude" and has sub-average density (34.20 degrees API or 830-850 kg/cm) and sub-average sulphur content (0.56%) compared to average Russian crude oil. When not blended with other Russian crude oil, crude oil produced by Gazprom Neft may be sold at a premium price over the Urals blend. This advantage, however, is generally lost because two-thirds of crude oil produced by Gazprom Neft is blended with crude oil belonging to other Russian companies when transported through the trunk pipeline system owned by Transneft.

Major fields in long-term production. Three of our four major fields in the Nadym-Pur-Taz region, Medvezhye, Urengoykoye and Yamburgskoye, were brought on stream between 1970 and 1990. In 2010, the production of natural gas from the cenomanian layers of these fields amounted to over 180 bcm (over 35% of the aggregate Group production of natural gas). Currently, the depletion rate of the initial geological reserves of the cenomanian layers of the fields is greater than 60%. The production of the fields has declined due to falling pressure in the layers of the fields.

We are currently exploring the neighbouring areas of these depleted fields. We expect the Kharvutinskaya area of the Yamburgskoye field to reach its maximum production capacity of 30 bcm by 2012. In 2010, we commissioned the Zapadno-Pestovaya area of the Urengoykoye field with annual production capacity of 2 bcm of natural gas and the Yareiskaya area of the Yamsoveiskoye field with annual production of 1.25 bcm of natural gas. We plan to put on stream the Nydinsky area of the Medvezhye field in 2011. Its annual production capacity is expected to amount to 2.7 bcm.

Zapolyarnoye field. This field is located near our main fields developed in the Nadym-Pur-Taz region. The Cenomanian deposits of the field were brought on stream in 2001. In 2007, their projected production capacity was revised from 100 bcm to 115 bcm. We brought on stream the lower Cretaceous deposits of the field in 2010. We expect that their planned production capacity of 15 bcm may be reached by 2013, with the total annual gas production of the field expected to reach 130 bcm between 2013 and 2014.

We are also focusing our development in the region in the following projects:

Zapadno-Pestovoe field. In 2010 this field was brought on stream in 2010. Its annual projected production capacity amounts to 2.0 bcm.

Yen-Yakhinskoye field. This field is located in the Nadym-Pur-Taz region. In 2007, this field achieved its projected production capacity producing 1.6 million tons (15.5 mmboe) of gas condensate and 5.3 bcm of natural gas. Beginning in 2016, this field is expected to be developed using gas reinjection technology (cycling process) to ensure maximum gas condensate withdrawal.

Yuzhno-Russkoye field. This field is located in the Nadym-Pur-Taz region. This field was brought on stream in 2007 and reached its projected annual capacity of 25.0 bcm in 2009.

In October 2007 and October 2009, we executed asset swap agreements with each of Wintershall Holding AG and E.ON Ruhrgas E&P GmbH, respectively, regarding the development of the Yuzhno-Russkoye field. As a result, BASF Group received three preferred non-voting shares and a 25% interest minus three ordinary shares in Severneftegazprom, which holds the licence for the development of the Yuzhno-Russkoye field, which represents 34.99% of the charter capital of Severneftegazprom. E.ON received three preferred non-voting shares and a 25% interest minus three ordinary shares in Severneftegazprom, which represents 24.99% of the charter capital of Severneftegazprom. Our interest in Severneftegazprom amounted to 50% plus six ordinary shares, which represents 40.0004% of the charter capital of the company.

As part of the transaction with BASF, we increased our share in WINGAS from 35% to 49.98% and in December 2007 received a 49% interest in Wintershall GmbH, the licence holder for development of two Libyan oil concessions (C96 and C97). See "—Joint Ventures and Alliances—BASF/Wintershall."

As a result of the asset swap with E.ON Ruhrgas, we took over a 49% interest in ZAO Gerosgaz, thus becoming a sole shareholder of the company which owns a 2.93% interest in Gazprom. See "—Joint Ventures and Alliances—E.ON."

Pursuant to asset swap agreements, we established two special purpose companies, ZAO Gazprom URGM Trading and ZAO Gazprom URGM Development. Gazprom owns 100% of the common shares in both companies. BASF holds one preferred share in ZAO Gazprom URGM Trading and E.ON Ruhrgas holds one preferred share in ZAO Gazprom URGM Development. ZAO Gazprom URGM Trading and ZAO Gazprom URGM Development purchase 35% and 25% of the total amount of the natural gas produced from the Yuzhno-Russkoye field, respectively, and transfer all of the profits from the sale of such natural gas to their respective preferred shareholders.

Urengoyenskoye field (Achimovsk formation). In October 2009, we put into operation the second block of the Achimovsk formation of the Urengoyenskoye field with an annual production capacity of 8.7 bcm of gas and 2.8 million tons of unstable gas condensate. We currently produce 3.5 bcm of gas daily from the block and expect it to achieve its projected production capacity between 2016 and 2017. We expect the third, fourth and fifth sections of the Achimov formations at the Urengoyenskoye field to come on stream between 2015 and 2017, reaching an aggregate rated capacity of approximately 36.8 bcm by 2024. Pursuant to the memorandum of understanding that we signed with Wintershall Holding GmbH, in March 2011, the fourth and fifth sections licensed for development to our subsidiary OOO Gazprom Dobycha Urengoy may become the subject of an asset swap transaction in which we may obtain stakes in exploration and production projects of Wintershall Holding GmbH. In addition, Achimgaz, our joint venture with Wintershall Holding GmbH, is developing the first section of the Achimov formations at the Urengoyenskoye field. See "— Associated companies and development of associated projects in the region — Achimgaz".

Muravlenkovskoye field. The Muravlenkovskoye field is located in Yamalo-Nenetsky Autonomous Area in the Nadym-Pur-Taz region. The licence for the development of the field is held by Gazprom Neft. In 2010 the field was brought on stream. The projected annual production capacity of the field is estimated at 3 bcm of gas.

Priobskoye field. The largest field operated by Gazprom Neft is located in the southern area of the Priobskoye field in the Khanti-Mansiysky autonomous region. The production from this field amounted to 9.3 million tons in 2010. For the period from 2010 to 2017, we plan to drill 2,000 wells. In 2010, 360 wells were drilled. We expect to achieve the estimated maximum production capacity of 10.0 million tons of crude oil for this area in 2012.

Yamal Peninsula. The Yamal Peninsula is located to the north of the Nadym-Pur-Taz region and is characterised by harsher climatic conditions. According to our estimates, the total explored category ABC₁ reserves of the Yamal Peninsula are at a level of more than 12 tcm of natural gas and 520 million tons of crude oil and gas condensate. Approximately half of these reserves are located in the Bovanenkovskoye and Kharasaveiskoye gas condensate fields and the Novoportovskoye oil and gas condensate field. We hold production licences for these fields.

Bovanenkovskoye field. According to our estimates, the annual amount of gas production at the Cenomanian-Aptian layers of the Bovanenkovskoye field is 115 bcm of natural gas, which in the longer term is expected to increase to 140 bcm of natural gas after taking into account gas condensate layers. We plan to put into operation the first start-up complexes of the Bovanenkovskoye gas condensate field and the Bovanenkovo-Ukhta pipeline in the third quarter of 2012 and to achieve the estimated maximum production capacity by 2017 to 2018.

Novoportovskoye field. The pilot production at the field begun in 2011. It is expected to start industrial production in 2016 and to reach the maximum production level of 7 million tons of crude oil by 2020. The licence for the development of the field is currently being transferred to Gazprom Neft.

Kuznetsky Coal Basin. Our subsidiary OOO "Gazprom Dobycha Kuznetsk" is implementing an innovative project in the Kemerovo region relating to the experimental production of coal methane. We expect to begin industrial production by 2015. The production of coal methane is expected to cover fully the demand for gas in the region by 2019.

Sibir Energy. Implementing our oil business development strategy, Gazprom Neft acquired a 100% interest in Sibir Energy in the period from April 2009 to February 2011. Sibir Energy is engaged in the exploration, production, refining and sales of hydrocarbons and refined products. The main production assets of Sibir Energy are located in the Khanty-Mansiisk Autonomous Area and include OAO "Oil Company Magma" which holds licences for the development of the Yuzhnoye and Orekhovskoye fields; ZOA "SIBGEKO" which carries out the exploration project "Koltogorsky block"; joint venture Salym Petroleum Development established on a parity basis with Royal Dutch Shell, which develops the Salym group of fields comprised of the Zapadno-Salymskoye, Verkhne-Salymskoye, and Vadelypskoye fields. The fields are at the stage of increasing production. After being consolidated with the Group in June 2009, Sibir Energy produced 3 million tons of oil through the end of 2010.

Associated companies and development of associated projects in the region

Our material associated companies in the region are described below.

Achimgaz. The Achimovsk formation of the Urengoyskoye field is divided into several parts, each of which is gradually developed. The development of the first part has been undertaken by ZAO Achimgaz ("Achimgaz"), our joint venture with Wintershall in which the parties have equal interests. Currently, the first part is at the stage of pilot production producing over 1.0 bcm of natural gas and 450 thousand tons of gas condensate per year. If this stage is successful, we intend to commence the commercial development of the field with a projected production level of 9.6 bcm of gas and 3.0 million tons of unstable gas condensate annually. Future investments will be provided on an equal basis from the profits of Achimgaz.

Nortgaz. We hold a 51% stake in Nortgaz, which is our associated company because the terms of its charter documents limit our ability to exercise control over the entity. In certain circumstances, the agreement also requires us to sell our stake in the company to the other shareholders of Nortgaz or to purchase the remaining 49% of the shares from such shareholders. Nortgaz holds licences for the development the Neocomian layers of the Severo-Urengoyskoye field. In 2010, Nortgaz produced 2.8 bcm of natural gas and 0.42 million tons of liquid hydrocarbons.

Slavneft. Gazprom Neft and TNK-BP own equal interests of 50% in Slavneft and jointly decide all issues with respect to operation of the company. Gazprom Neft's share of Slavneft's production amounted to 9.2 million tons of oil and 0.3 bcm of associated gas in 2010, and, based on PRMS Standards, Gazprom Neft held a share in the proved and probable reserves of Slavneft of 315.0 million tons of oil and 6.7 bcm of associated gas as of December 31, 2010. Slavneft's East Messoyakha and West Messoyakha fields are located in the northern part of the West Siberian gas bearing province in the south-west of the Gydan peninsula and are among the largest fields in terms of explored reserves. Due to the magnitude and complexity of the development of these fields, Gazprom Neft and TNK-BP decided to establish a joint venture for the development of the fields. Gazprom Neft was chosen to be the operator of the project. We plan to start industrial production from the Messoyakhskoye fields in 2015 and to reach the projected annual production level of 33 mmtoe by 2024.

Tomskneft. In December 2007, Gazprom Neft acquired a 50% interest in Tomskneft from OOO Neft-Aktiv, a subsidiary of Rosneft, for RR88.2 billion. According to the terms of the transaction, Gazprom Neft does not control Tomskneft. Instead, its shareholders jointly decide all issues with respect to operation of the company. Tomskneft holds licences for the development of fields in the Tomsk region and Khanty-Mansiisk Autonomous Area. Gazprom Neft's share of Tomskneft's production amounted to 5.2 million tons of oil and 0.6 bcm of associated gas in 2010 and, based on PRMS Standards, Gazprom Neft held a share in the proved and probable reserves of Tomskneft of 117.1 million tons of oil and 21.2 bcm of associated gas as of December 31, 2010.

Yamal Razvitie. In late 2010, Gazprom sold a 51% equity interest in SeverEnergiya acquired by the Group in September 2009 to Yamal Razvitie, a 50% joint venture established by Gazprom Neft, a subsidiary of the Gazprom Group, and Novatek to implement joint oil and gas condensate development projects in the Yamal Nenets Autonomous District. As a result of this transaction, Gazprom Group's effective equity interest in SeverEnergiya as of December 31, 2010 was 25.5%. SeverEnergiya owns 100% of shares in each of OAO Arcticgas, ZAO Urengoi and OAO Neftegazgeologia, holders of development licenses for West Siberian fields with total A+B+C₁ reserves of 618.1 bcm of gas and 171.2 million tons of oil and gas condensate. 49% of shares in SeverEnergiya are held by Arctic Russia B.V. In September 2011, we signed an agreement with SeverEnergiya in relation to the purchase of natural gas and, pursuant to that agreement, we will acquire natural gas produced in the Sambursky block (the license for which is held by Arcticgaz).

Northern European Russia (Northwestern federal district)

This region is characterised by severe weather conditions and has four active gas condensate fields. The operating production company for this region is Gazprom Pererabotka, which, as a result of a corporate reorganisation, obtained licences for subsoil use that were previously held by Severgazprom.

Southern Russia (Southern federal district)

Our upstream activity in this area is concentrated in two regions, the Astrakhan region and the northern Caucasus. The Astrakhan region contains one active gas condensate field, Astrakhanskoye, which is operated by Gazprom Dobycha Astrakhan. The northern Caucasus region contains approximately 60 active fields. The fields in this region are operated by Gazprom Dobycha Krasnodar and OOO Gazprom Transgaz Makhachkala.

Astrakhanskoye field. According to our estimates, the Astrakhanskoye field in southern Russia in the Volga river estuary can support production of separator gas of 50-60 bcm annually (or 25-30 bcm of sales gas). Currently, the Astrakhanskoye field produces approximately 12 bcm (or 6 bcm of sales gas) annually due to environmental restrictions and the need to use expensive technologies, which is mainly caused by a high sulphur content in the reserves of the field. In order to increase production, we are considering developing the Astrakhanskoye field using a process of acid gas flooding which enables us to effectively decrease pollutant emissions and eliminate the storage and processing of illiquid related sulphur.

South Urals region (Privolzhski federal district)

The main active field, Orenburgskoye, in the South Urals region is operated by OOO Gazprom Dobycha Orenburg, which produces, processes and transports natural gas, gas condensate and crude oil, and ZAO Gazprom Neft Orenburg, an oil and gas production company. OOO Serviceneftgaz also produces natural gas, gas condensate and crude oil in the region.

Orenburgskoye field. The Orenburgskoye field is a rare field in terms of the size of its reserves and its natural gas which apart from its hydrocarbon component, contains hydrogen sulphide, sour mercaptan, sulphur and helium. The current annual production of the field amounts to 18 bcm of natural gas.

Eastern Siberia and the Far East (Siberian and Far East federal districts)

Eastern Siberia and the Far East, excluding the continental shelf, contain significant natural gas reserves, which are estimated at approximately 8.2 tcm of categories ABC₁ and C₂ according to the Russian reserve classification system. See "—Russian sea shelf."

OAO Vostokgazprom Group ("Vostokgazprom Group"), in which we hold a 99.9% interest, produces natural gas from three gas fields in this area.

In September 2007, the Ministry of Energy of the Russian Federation approved the Eastern Programme to create a unified gas production, transportation and supply system in the region with the potential to export gas to China and other Asian-Pacific countries. The Eastern Programme identifies Sakhalin as the highest-priority region for full-scale commercial development in the Russian Far East. The Government appointed us to coordinate the implementation of the Eastern Programme.

We own exploration and development licences and conduct exploration work in the Krasnoyarsk region, the Irkutsk region, the Sakhalin region, the Republic of Sakha (Yakutia) and the Kamchatka region that have been identified as new gas production centres by the Eastern Programme. In 2010, the production of gas at the Kshuyskoye gas field was started in order to meet demand in the Kamchatka region.

Republic of Sakha (Yakutia). Chayadinskoye field. In September 2008, the Government granted us a licence for the Chayadinskoye oil and gas condensate field located in the Republic of Sakha (Yakutia) without tender. The oil rim of the field is expected to be brought into pilot production in 2014 and the gas condensate deposits in 2016. The technological scheme of development of the field estimates an annual gas production of up to 25 bcm. In 2010, exploratory drilling of the two wells was positive, and the seismic exploration works were performed. We continue exploration of the field.

Krasnoyarsk region. Sobinskoye oil and gas condensate field is one of the largest in the region. We plan to take a decision with respect to the development of the field upon completion of the exploration work that is being carried out.

Irkutsk region. Chikanskoye gas condensate field is located within eastern and western areas of the Yuzhno-Kovyktinskaya area. We plan to put the field on stream in 2012. The technological scheme of development of the field provides for annual gas production of up to 3.5 bcm. We have completed seismic exploration works and started exploratory drilling.

Kovykta gas condensate field. In March 2011, we won a tender bid process held as part of a bankruptcy procedure of OAO Rusia Petroleum Company, which was the holder of the subsoil use licence for the Kovykta gas condensate field. Gazprom acquired the property of OAO Rusia Petroleum Company, including a 100% interest in OOO Kovyktaneftgas, which in turn owned property located in the Khandinsky licensed area. Acquisition of this property allowed Gazprom in April 2011 to apply for a re-registration in its own name of the license for the use of the Kovykta gas condensate field with the estimated C_1+C_2 hydrocarbon reserves of about 2 tcm. The application is being processed by the Federal Agency for Subsoil Use.

Russian sea shelf

We consider Russia's sea shelf, including the Arctic Shelf, and particularly the Barents Sea, to be a promising area for the further development of new hydrocarbon deposits. At the Russian sea shelf, our subsidiaries, Gazprom Dobycha Shelf and Gazprom Neft Shelf, operate the gas development projects and oil development projects, respectively.

The Barents Sea shelf

Shtokmanovskoye field. The Shtokmanovskoye gas condensate field is located in the centre of the Barents Sea northwest of the Yamal Peninsula and 650 km northeast of Murmansk. Shtokmanovskoye field's projected production capacity is approximately 72 bcm per year, which can potentially be extended to up to 95 bcm per year. At the first phase of development, it is envisioned that the project will reach the production of 23.7 bcm of natural gas per year. The first phase also provides for a construction of a LNG plant with annual projected capacity of 7.5 million tons. We plan to put the field on stream in 2016 and to start LNG production in 2017. We expect to make a final investment decision on the timing for pipeline gas and LNG production by the end of 2011. Currently, we are working to design infrastructure for the first phase of development of the field.

We cooperate in the first phase of the development of the Shtokmanovskoye field with Total and Statoil. In 2008, a special-purpose company, Shtokman Development AG, was established to manage engineering, financing, construction and exploitation of installations during the first phase of the development of the Shtokmanovskoye field. Our stake in Shtokman Development AG is 51%, and Total and Statoil own the remaining 25% and 24% interests, respectively. We retain 100% control of OOO Gazprom Neft Shelf ("Gazprom Neft Shelf"), which currently holds the licence for the development of the Shtokmanovskoye field, as well as the right to market all of the hydrocarbons produced. We expect that, upon completion of the operational period of the first phase in the development of the Shtokmanovskoye field, Total and Statoil will assign to us their stakes in the special-purpose company.

Prirazlomnoye oil field. This field is located on the Pechora Sea shelf. The estimated maximum annual oil production volume for this field is expected to be 6.6 million tons (48.4 mmbbls). We plan to install an offshore ice-resistant platform and begin production at the field during 2011.

The shelf of the Kara Sea

The Obskaya and Tazovskaya Bays. The total C₁ and C₂ categories of reserves of the shelf of the Kara Sea, including the Obskaya and Tazovskaya Bays, are estimated to amount to approximately 4.3 tcm of natural gas and 83.4 million tons of liquid hydrocarbons. In accordance with our programme to develop hydrocarbon reserves on the shelf of the Russian Federation through 2030, annual gas production on the shelf of the Obskaya and Tazovskaya Bays and the neighbouring land areas in the Yamal-Nenets Autonomous Area is expected to be 50 bcm by 2025. We hold exploration and production licences for a number of fields in the region with total C₁ and C₂ categories of reserves amounting to approximately 1.8 tcm of gas and 20.4 million tons of gas condensate, which is more than 40% of the region's reserves. We expect to begin hydrocarbon production in the region in 2018, bringing on stream the Severo-Kamennomysskoe field. The annual project capacity of the field is 15.3 bcm of natural gas.

The Okhotsk Sea shelf

Kirinskoye field. In September 2008, we obtained a licence for the development of the Kirinskoye field. The Kirinskoye field is located on the sea shelf near Sakhalin. Currently, we are performing exploration works and have completed drilling of the two exploration wells with a positive result. We plan to synchronise commissioning of the field with the implementation of the Sakhalin-Khabarovsk-Vladivostok pipeline project. The annual gas production of the field is estimated at 4.2 bcm.

In July 2009, we also obtained licences for the Kirinsky block and started exploration. In 2010, we drilled the first well at the Yuzhno-Kirinskoye field and received commercial gas inflow. In July 2011, we started drilling the first exploration well at the Mynginskaya structure. In 2009, we also obtained licences for Vostochno-Odoptinsky, Ayashskiy areas of the Sakhalin III project, and the Zapadno-Kamchatskiy area where we have started to perform exploration works.

Associated companies and development of associated projects in the region

Sakhalin II project. In April 2007, we completed our previously announced acquisition of a 50% plus one share interest in Sakhalin Energy, the operator of the Sakhalin II project, for which we paid U.S.\$7.45 billion. The company is included as an associated company in our financial statements. The Sakhalin II project is subject to a production sharing agreement.

The Sakhalin II project is one of the largest integrated oil and gas projects in the world. The project includes the Piltun-Astokhskoye and Lunskeye fields, the first Russian LNG production plant with an annual production capacity of 9.6 million tons of LNG and an oil export terminal. Initial ABC₁ and C₂ reserves of the fields at the pre-development stage amounted to approximately 172 million tons of crude oil and gas condensate

and 618 bcm of natural gas, respectively. In December 2008, the project started to produce oil year round. LNG shipments commenced in March 2009 and in 2010 the plant was brought to design capacity. In 2010 and 2009, oil and gas condensate production in Sakhalin II amounted to 5.9 million tons and 5.4 million tons and the LNG plant produced 10.0 million tons and 5.3 million tons of LNG. In April 2007, the Ministry of Natural Resources and Ecology of the Russian Federation approved the environmental protection plan of the project. As of the date of this Prospectus, no substantial environmental fines or other penalties have been levied with respect to the project.

Central geological structure. In June 2003, we formed OOO TsentrCaspNeftegaz ("TsentrCaspNeftegaz"), a joint venture with Lukoil in which we and Lukoil have equal interests. TsentrCaspNeftegaz is authorised to act on behalf of the Russian Federation for the development of the Central geological structure in the Caspian Sea together with ZAO NK KazMunaiGaz ("KazMunaiGaz"), the latter acting on behalf of Kazakhstan. The Central geological structure is located within the Russian sector of the Caspian Sea, 150 km to the east of Makhachkala. In March 2005, TsentrCaspNeftegaz and KazMunaiGaz entered into an agreement for the joint development of hydrocarbon resources of the Central geological structure. In May 2008, in the course of testing the first exploration well on the Central geological structure, TsentrCaspNeftegaz discovered a large oil and gas condensate field with category C1 and C2 reserves of 169.1 million tce. We plan to commence construction of the second exploratory well towards the end of 2011. TsentrCaspNeftegaz is taking measures to enter into a joint venture with KazMunaiGaz to further develop the field on the basis of a production sharing agreement.

FSU and Europe and Other Countries

We participate in hydrocarbon exploration and development abroad. ZAO Gazprom Zarubegneftegaz ("Gazprom Zarubegneftegaz") and Gazprom EP Int. generally operate our projects in the FSU and Europe and Other Countries.

Naftna Industrija Srbije. In February 2009, Gazprom Neft acquired a controlling shareholding in a diversified oil and gas company NIS (Serbia), which produced 1.7 million tons of oil and 0.7 bcm of natural and associated gas through the period after consolidation. NIS also owns oil refineries in the cities of Panchevo and Novi Sad, which have a total capacity of 7.3 million tons of oil per year.

Associated companies and development of associated projects in the region

Vietnam. Under a framework on cooperation with Petrovietnam, a Vietnamese oil and gas company, we are currently conducting the development of Block 112 of the continental shelf in the Gulf of Bak Bo, in Vietnam, on a production sharing basis. The operator of the project is Vietgazprom, a joint venture in which we and Petrovietnam have equal interests. In 2007, we explored a new field, Bao Wang (Golden Panther). We plan to complete the exploration period in 2013. If the exploration yields positive results, production may begin between 2015 and 2017.

In October 2008, we signed an oil and gas exploration agreement for 30 years to develop four new blocks (No. 129, 130, 131, 132) in the South China Sea. We plan to explore, produce and sell hydrocarbons from these blocks on the basis of a production sharing agreement. The total reserves of these blocks amount to 700 mtoe. Vietgazprom acts as the operator for the development of these blocks. Currently, we are reviewing the results of the seismic exploration work and geochemical survey that have been performed.

In December 2009, we signed an agreement for strategic partnership with Petrovietnam which provides for further joint work on the sea shelf of Vietnam, in Russia and other countries. We have established a joint venture Gazpromviet to comply with the undertakings pursuant to the partnership agreement. We hold a 51% interest, and Petrovietnam owns 49% in Gazpromviet. We consider joint development of Nagumanskoye oil and gas condensate field in the Orenburg region and some projects in other regions of Russia.

India. We are currently conducting the exploration of hydrocarbon reserves in Block 26 in the Bay of Bengal, on the Indian sea shelf. We own a 100% share in this project. Pursuant to the production sharing agreement we have performed all our obligations relating to the exploration stage of the project.

Algeria. In December 2008, Gazprom won the bid for the exploration and development of hydrocarbon reserves of the El-Assel area in the Berkine geological basin in Sakhara. In 2010, as a result of geological exploration we discovered hydrocarbon reserves in the Berkine geological basin and received commercially viable oil and gas flows. Currently, we are constructing the relevant infrastructure at this site.

Cuba. In late 2010, Gazprom Neft and Petronas (Malaysia) signed an Agreement and General Provisions on Joint Activities concerning the terms of exploration and subsequent development of four blocks on the Cuban shelf. The documents signed provide for transfer to Gazprom Neft of a 30% stake in the project, with Gazprom Neft being liable to reimburse Petronas for a portion of the costs incurred by the latter and to participate in funding future operations pro rata to its share. The agreement will take effect once endorsed by the Cuban authorities. As of the date of the framework agreement, the costs previously incurred by the operator of the project amounted to approximately U.S.\$16 million. Subject to all necessary approvals and authorisations by the Cuban government and satisfaction of other conditions precedent, Gazprom Neft's share of investment costs in 2011 could be up to approximately U.S.\$40-50 million. The Production Sharing Agreement between Petronas and the Government of the Republic of Cuba signed in 2007 provides for the geological exploration and the production of oil and gas till 2037 and 2042, respectively.

Equatorial Guinea. In June 2010, we signed two production sharing agreements with the Ministry of Energy of Equatorial Guinea and the national oil company Guinea Equatorial de Petroleos (GEPetrol) for exploration of oil reserves on the shelf of Equatorial Guinea. Gazprom Neft was appointed operator of this project. According to preliminary estimates, oil reserves on the two shelf blocks may reach 110 million tons.

Libya. In December 2006, we won the tender for the exploration and development of hydrocarbons located in Block 19, on the shelf of the Mediterranean Sea in Libya. If reserves are found, our share in the field's production would be 10%. In March 2007, we signed a production sharing agreement with the Libyan National Oil Company, which regulates our participation in the exploration and development of Block 19. In December 2007, we won a tender for the exploration and development of hydrocarbons located in the land-based Block 64 of the Gadames oil province in Libya. Expected geological reserves of Block 19 amount to 60.5 million tons of oil and expected geological reserves of Block 64 amount to 533 million tons of oil and 175.7 bcm of gas. Our involvement in the development of Blocks 19 and 64 is governed by the terms of the agreement on geological exploration, development and production sharing with Libya's National Oil Corporation. Our share at the stage of geological exploration is 100% and our share in production, subject to discovery of reserves, is 10% for Block 19 and 9.8% for Block 64.

According to the licence agreements, we are to perform seismic assessments and drill six exploratory wells at each of Block 19 and 64. The seismic surveys have been completed at Blocks 19 and 64 and exploratory drilling was started on the Block 64. Further Works on the projects have been suspended due to the unrest in the country.

In addition, in December 2007, in accordance with our asset swap agreement with BASF, we received a 49% interest in Wintershall GmbH which is the developer of two Libyan oil concessions, C96 and C97, for the period through 2026. The total annual production of our part in the two concessions amounted to 0.2 bcm of gas and 2.0 million tons of oil in 2010. The remaining recoverable proved and probable reserves amount to 22 million tons of oil and 7.5 bcm of gas.

In February 2011, we signed the first part of our Agreement with Eni for the Elephant project PSA in Libya. Under the Agreement, our participation in the project following its approval by the Libyan party could be 33.3%. However, owing to the occurrence of force majeure due to the hostilities in Libya our participation in the project has been postponed for an indefinite period. The value of the asset being considered is approximately

U.S.\$163 million. The project's recoverable oil reserves are estimated at 110 million tons, with an expected maximum annual production of 6 million tons. See "—Joint Ventures and Alliances—Eni/Enel."

Bolivia. In March 2008, in the framework of a cooperation agreement, we signed an agreement with Yacimientos Petrolíferos Fiscales Bolivianos ("YPFB") on geological exploration of the Sunchal and Azero blocks in Bolivia. In September 2008, we agreed with Total on the joint exploration of the Azero block. In September 2010, we purchased a 20% interest in the Ipati and Aquio blocks, in which our partners Total and TecPetro hold 60% and 20% respectively. The expected category C₁ geological reserves at Ipati and Aquio blocks are estimated to amount to up to 285 bcm of natural gas and 24 million tons of gas condensate.

In September 2008, we signed a memorandum with PDVSA and YPFB which contemplates our acquisition of a 20 to 24.5% interest in PetroAndina S.A. which owns licences for the development of 12 blocks in Bolivia, including Aguarague, Iniguasu and Inau with potential reserves of up to 300 bcm of natural gas.

Venezuela. In September 2005, we won a tender for the development of Phase A of the Rafael Urdaneta project in Venezuela. We received licences from the Venezuelan government to conduct geological research and develop hydrocarbon reserves of the Urumaco 1 and Urumaco 2 deposit blocks for the period of 30 years. We estimate natural gas reserves of these blocks at approximately 90 bcm. In accordance with the terms and conditions of the licence, the first stage of geological exploration, including seismic testing, has been completed and the first exploration well has been drilled on the Urumaco 1 deposit block. We are currently analysing the results in order to take decision relating to further exploration work on the blocks.

In September 2008, jointly with Petronas, Eni and EDP we signed a memorandum of understanding with Venezuelan PdVSA, which provides for our participation in the joint project for the exploration, production and liquefaction of gas from the Blanquilla Este and Tortuga deposit block which has an annual expected capacity of 4.7 million tons. It is expected that we will have a 30% interest during geological exploration and a 15% interest during the production stage. The geological resources of these deposit blocks may amount to 260 bcm of natural gas and 320 million tons of crude oil. Currently, the project participants are negotiating the implementation of the project and preparing application documents for a geological exploration licence.

In June 2009, Gazprom Neft acquired a 20% interest in NNK, a company established to implement oil production projects in Latin America by Gazprom Neft, Rosneft, Lukoil, TNK-BP and Surgutneftegaz, each having an equal interest in NNK. In September 2009, the governments of Russia and Venezuela entered into an agreement for cooperation in implementation of joint strategic projects. In April 2010, NNK and Petroleos de Venezuela SA (PdVSA) established a joint venture Petromiranda to develop low-grade oil field Junin-6 in the basin of the Orinoko River in Venezuela. NNK holds a 40% interest in Petromiranda. NNK appointed Gazprom Neft to coordinate the Junin-6 project. Currently, the project participants are developing a supplementary exploration programme for the period from 2010 to 2013. The participants are also considering the possibility of joint development of Ayacucho 2 and 3 and Junin-3 blocks.

Iraq. In January 2010, Gazprom Neft, as a member of consortium with Kogas (South Korea), Petronas (Malaysia) and TPAO (Turkey), signed a Development and Production Service Contract with the North Oil Company of the Iraq Ministry of Oil and Oil Exploration Company ("OEC") for the Badra contract area. Gazprom Neft, as the operator of the project, received a 30% interest in the project, whereas Kogas, Petronas, TPAO and OEC, representing the government of Iraq, received a 22.5%, 15%, 7.5% and 25% interest, respectively.

The Badra field project life is currently estimated at 20 years but may be extended by another 5 years. According to preliminary estimates, geological reserves of the Badra field amount to 3 billion barrels of oil. A maximum production level of 8.5 million tons of oil per year is expected to be reached by 2016. The field is expected to be put into operation in the second half of 2013. The total capital expenditure for the project is estimated to be approximately U.S.\$2 billion.

Iran. Since 1997 we have participated in a project to develop the second and third phases of the South Pars field, located in the Iranian segment of the Persian Gulf, with a total cost of more than U.S.\$2 billion. We held a 30% interest in the project. Our partners in this project were Total, which held a 40% interest, and Petronas, a Malaysian company, which held a 30% interest. The NIOC has been making payments to the project partners for construction work since the second quarter of 2002, and such payments were continued through the end of 2010.

In July 2008, we signed a memorandum of understanding with the NIOC. Among other things, the memorandum provides for cooperation in other countries. The memorandum expired in July 2010. We did not assess or implement any project contemplated by the memorandum.

In November 2009, our subsidiary, Gazprom Neft, and the NIOC entered into a memorandum of understanding that provides for potential joint exploration of the Azar and Shangul fields in Iran in accordance with a service contract under which our investments may exceed U.S.\$20 million. As of the date of this Prospectus, Gazprom Neft has neither taken any decision with respect to participation in any projects nor performed any work in relation to implementation of any projects set forth in the memorandum.

U.S. sanctions have been imposed on companies engaging in certain types of transactions with specified countries, including Iran, or companies in those countries. The U.S. Department of State has issued a determination that the investment made by our partners and us in Iran's South Pars field constituted activity that is covered by the Sanctions Act and, at the same time, communicated its decision to waive sanctions under Section 9(c) of the Sanctions Act with respect to such investment. The waiver applies to our activities in the South Pars field only, and not to any other activities we may conduct in Iran. We believe that we are not currently involved in any transactions in Iran or other countries that could result in sanctions against us or for which we have not received a waiver of such sanctions. See "Risk Factors—Risks Relating to Our Business—Violations of existing international or U.S. sanctions could subject us to penalties that could have an adverse effect on us."

Ukraine. In December 2010, we signed a memorandum with the National Joint Stock Company Naftogaz of Ukraine providing for the establishment of a 50:50 joint venture to explore, evaluate and develop coal bed methane in Ukraine. Based on the signed document, we are currently negotiating the terms of this joint venture. We are also considering another joint venture with NAK Naftogaz of Ukraine to develop together the Palasa structure in the Ukrainian section of the Black Sea.

Central Asia. In 2008 and in the first quarter of 2009, we obtained licences for subsoil use in Uzbekistan, Tajikistan and Kyrgyzstan. These licences authorised exploration activities on seven blocks of the Ustyurtskiy region of Uzbekistan through August 2011, two areas in Tajikistan through December 2011, two other areas in Tajikistan through September 2013 and two areas in Kyrgyzstan through February 2015. In accordance with the terms of licence agreements, we are currently conducting exploratory drilling and seismic exploration work in Kyrgyzstan and Tajikistan. In 2010, we discovered the Dzhel field in the Shakhpakhtinsky license block in Uzbekistan. In 2010, during the stage of further development of the Shakhpakhty field, about 0.2 bcm of gas was produced.

For our agreements with central Asian countries in natural gas sales and transit, see "—Gas Marketing—Cooperation with FSU countries in gas marketing."

Transport

Financial highlights

Our transport segment generally renders gas transportation services to our Distribution segment.

The following table sets forth selected financial data with regard to our Transport segment as defined in our financial statements prepared in accordance with IFRS.

	Transportation of gas				
	As of and for the three month period ended March 31,		As of and for the year ended December 31, ⁽¹⁾		As of and for the year ended December 31, ⁽²⁾
	2011	2010	2010	2009	2009
	Unaudited		Unaudited		Audited
			Audited	Revised	
Assets, million RR	4,113,989	3,714,705	4,000,952	3,323,087	3,323,087
Share of Group's total assets, %	42%	40%	41%	38%	38%
Sales ⁽³⁾ , million RR	28,796	25,147	92,631	65,563	65,563
Share of Group's total sales, %	2%	3%	3%	2%	2%
Capital additions, million RR	76,561	54,953	407,571	231,723	231,723
Share of Group's total capital additions, %	42%	39%	44%	35%	35%

Note:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.
- (3) Excluding inter-segment and intra-segment operations.

We own and operate the UGSS, a single, centrally controlled system for natural gas preparation, transportation and storage. The UGSS includes the world's largest high-pressure trunk pipeline gas transportation system (the "GTS"). We estimate that as of December 31, 2010, the total length of the system was approximately 162 thousand km (not including pipelines for the transportation of gas condensate) and included 215 compressor stations on the pipelines with total capacity of 42,100 MW and 25 UGSFs with a market-grade gas storage capacity of approximately 65.4 bcm.

Our wholly owned regional subsidiaries engage in gas transportation in Russia. Our storage activities are conducted by our specialised subsidiary "OOO Gazprom PKhG". We also own interests in gas distribution companies, which own and operate distribution networks that transport gas to end consumers. In addition, we participate in natural gas transportation activities through a number of joint ventures with foreign partners. See "—International projects in gas transportation" and "—Gas storage".

The UGSS transported natural gas (including gas from independent suppliers) through Russia an average distance of 2,592 km for domestic consumption and 3,262 km for export in 2010.

Our high-pressure trunk pipeline system transports natural gas principally from large western Siberian fields westward toward the more heavily populated regions of Russia, the FSU countries and Europe and to refineries. The trunk pipeline system is highly integrated to ensure reliable natural gas deliveries to distributors, export customers and consumers. The high level of integration of our pipeline network is achieved through the use of multiple and parallel pipelines of large diameters (defined as pipes with diameters of 1,420 mm, 1,220 mm and 1,020 mm), inter-connectors and underground storage facilities. In most cases, the extensive branching structure of the UGSS, together with the availability of spare pipeline throughput capacity, enables us to re-route or to increase natural gas flow in case of an emergency.

The age of the pipeline system as of December 31, 2010 is shown in the table below.

Since construction	Length (km)	% of total
Up to 10 years	17,205.0	10.6
11-20 years	25,011.9	15.5
21-30 years	70,934.6	43.9
31-40 years	23,783.5	14.7
41-50 years	19,279.6	11.9
Over 50 years	5,465.5	3.4
Total	161,680.1	100

We are continually working to improve the reliability and efficiency of the UGSS. In September 2006, we approved a comprehensive programme for the reconstruction and refurbishment of the gas transportation system during 2007 to 2010. One of the principal goals of the programme was to increase throughput of the gas transportation system in light of the expected increase of gas volumes transported through the system. Our annual reconstruction and refurbishment plans under the programme were adjusted because of changes in demand and the resulting decrease in gas transportation needs. In 2010, we reconstructed 380 km of pipelines and replaced or modernised 13 gas pumping units. The *Comprehensive Programme for Upgrading and Technical Re-equipment of Gas Transportation Facilities and Underground Gas Storage Facilities for 2011-2015* was approved for the next five years.

We also carry out annual capital repairs and preventive maintenance to improve the reliability of gas supply, technological and environmental safety and the efficiency of gas distribution. We recently increased the level of our capital repairs as a result of the ageing of extensive sections of gas pipelines that were put into operation in the 1980s and the early 1990s. Annually, we make capital repairs to approximately 2,500 kilometres of trunk pipelines and up to 1,200 gas pumping units.

We also annually perform approximately 19,000 kilometres of intratubal diagnostic activities and approximately 20,000 kilometres of electrometric inspections. We are considering the possibility of increasing the volume of our intratubal diagnostic activities in order to timely detect critical defects while decreasing the frequency of inspections.

There have been no major interruptions of gas supplies caused by any failure or fault of the UGSS over the last 10 years. As a result of our regular pipeline repairs and improvement in our pipeline technology, the incidence of technical faults that involve interruptions or restrictions of gas supply dropped from 32 in 2002 to between 17 and 20 per year recently. In 2010, we registered 7 minor technical faults of the gas transportation system.

Gas transportation balance

Natural gas flows into our trunk pipelines from our own production, from the production of independent and central Asian producers, and from withdrawals from underground storage. Natural gas flows from our trunk pipelines to customers in Russia, Europe and the FSU as well as to our underground storage facilities. After accounting for operational requirements of the pipeline system and other technical factors, total inflows are equal to total outflows in a particular period.

The following table sets out data on the natural gas balance of the GTS for the periods indicated (including natural gas in transit from central Asia and Azerbaijan).

	For the year ended December 31,		
	2010	2009	2008
		(bcm)	
Total GTS inflow⁽¹⁾	661.2	589.7	714.3
System inflow	614.1	552.4	669.2
(including Central Asian gas)	35.3	35.7	61.4
(including Azerbaijanian gas)	0.8		
Withdrawals from Russian UGSFs	40.8	30.0	36.1
Decrease in gas transportation system reserves ⁽²⁾	6.3	7.3	9.0
Total distribution from GTS⁽¹⁾	661.2	589.7	714.3
Deliveries to customers in Russia	354.9	335.6	352.8
(including Central Asian gas)	0.1	0.1	0.1
Deliveries outside Russia	209.3	195.6	251.1
(including imported gas)	35.2	35.6	61.3
(including Azerbaijanian gas)	0.8		
Addition to Russian UGSFs	47.7	15.7	51.6
Technological needs of GTS and UGSFs	43.6	36.3	49.6
Increase in GTS reserves ⁽²⁾	5.7	6.5	9.2

Notes:

- (1) These numbers do not include gas volumes withdrawn from foreign UGSFs and delivered outside Russia.
- (2) A significant extension of the GTS involves maintaining a large volume of gas in the pipeline. This allows the system operators, increasing or decreasing the pressure at its different divisions, to accumulate excess gas in the pipeline for a certain period of time or to use it for extra supply. Thus, within a certain period, the shipment chain may transfer a lesser or larger volume of gas from one operator to another. The line shows the result of such operations as a total amount accumulated for a reporting period.

Most of the natural gas consumed by the pipeline system is used to power the GTS. The remainder is accounted for by technological losses, including gas lost during maintenance of the pipelines. We believe that our current volume of gas losses is low, and that our levels of consumption of gas as fuel are satisfactory.

Third-party access to the GTS

Pursuant to Government Decree No. 858 dated June 14, 1997, we provide independent suppliers with access to the UGSS subject to the following requirements:

- availability of spare transport capacity for the time period proposed by the independent supplier;
- quality and technical parameters of the natural gas supplies;
- availability of input connections from suppliers and output connections to consumers and natural gas recovery and quality control stations; and
- availability of gas supply agreements and relevant customer demand for the proposed time period.

Independent gas suppliers transported approximately 72.6 bcm, 66.5 bcm and 111.2 bcm, or 11.1%, 11.4% and 15.8% of the natural gas supplied, through the GTS for the years ended December 31, 2010, 2009 and 2008, respectively. These amounts included gas in transit from central Asia. The increase in 2010 was due to an increase in demand. In 2010, major third-party users of the GTS were OAO Novatek and OOO NGK Itera, accounted for approximately 33.5% and 27.4% of supplies by independent suppliers, respectively.

Tariffs charged to unaffiliated third parties for the transportation of natural gas through our trunk pipelines are established by the FTS. See "—Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Prices and tariffs."

The following table sets forth the levels of the average tariffs charged to unaffiliated third parties for the transportation of natural gas through our trunk pipelines for the periods indicated. The average tariff has increased in response to an increase in the gas prices in Russia.

	2011 ⁽¹⁾	2010	2009	2008
Average tariff, RR for mcm per 100 km.....	56.25	51.45	41.88	36.18

Note:

- (1) Estimated based on currently available data.

Gas distribution networks

Gas distribution networks are designed to deliver gas from trunk pipelines to end-users. We are the leading gas distribution company in Russia. Our gas distribution assets are consolidated in our subsidiary OAO Gazprom gazoraspredeleniye ("Gazprom gazoraspredeleniye"). As of December 31, 2010, our controlled companies operated approximately 479 thousand km of gas distribution pipelines facilitating supply of more than 173.4 bcm of gas to end-users.

Since 2005, we have been implementing a gasification programme for Russian regions, which will provide for the extension of our distribution pipeline network particularly to areas in Russia where natural gas is currently unavailable. We allocated RR25.6 billion and in 2010 RR24.2 billion toward the implementation of this programme in 2010, 2009 and 2008, respectively. In 2010, we constructed 156 gasification facilities with a total length of 2.1 thousand km to enable gas supplies to 278 settlements in 67 regions of Russia.

Existing routes of gas export and participation in foreign gas distribution networks

Yamal-Europe. The Yamal-Europe export pipeline has an annual projected capacity of approximately 33 bcm. The Yamal-Europe pipeline passes through Belarus, Poland and Germany and connects the UGSS in Russia with the YAGAL pipeline in Germany. The German section of the pipeline is owned by a subsidiary of WINGAS, our joint venture. The Polish section is owned by EuRoPol GAZ, a joint venture in which we participate with PGNiG S.A. (a state- controlled Polish gas company) and Gaz-Trading. We own the section of the pipeline in Belarus.

Blue Stream. The Blue Stream pipeline, which has an annual projected capacity of approximately 16 bcm, supplies gas to Turkey, bypassing transit countries. We, together with the Italian company Eni, own the offshore section of the pipeline which runs under the Black Sea and is approximately 390 km long.

Natural gas transit through Ukraine and Belarus. All of the natural gas we export to Europe (except to Finland and in part to Turkey) is transported outside of Russia through pipelines passing through the territory of Ukraine and Belarus, on which we are dependent for natural gas transit to Europe. At the same time, Ukraine and Belarus are dependent on us for natural gas supplies. We pay transit fees for the use of the pipelines through Ukraine and Belarus. The negotiations of these fees and access to these pipelines are important elements of our export business. Our joint venture, Beltransgaz, transports natural gas through Belarus. See "—Joint Ventures and Alliances—Beltransgaz."

In connection with our price and debt settlement disputes with Ukraine and Belarus, we briefly suspended our natural gas supplies to these countries. As a consequence thereof, occasional unauthorised withdrawals of transit gas designated for our European customers occurred.

In particular, as a result of our price dispute with Ukraine, we could not extend our gas supply contract with Ukrainian consumers for 2009. Without a contract between the parties, we suspended supplies to Ukrainian consumers while we continued to deliver gas to the Ukrainian gas transportation system for transit to European consumers. By January 7, 2009, despite the existence of an operating contract for the transit of natural gas through 2011, Ukraine had stopped supplying gas to Europe and directed all gas from the Ukrainian gas transportation system to Ukrainian consumers. We then completely stopped supplying gas to the Ukrainian gas transportation system. The dispute was settled with the participation of the Russian and Ukrainian governments and the European Union.

On January 18, 2009, Russian and Ukrainian prime ministers agreed on long-term transit and supply contracts in which the principle of separate transit and supply contracts were maintained and a European pricing formula was introduced into supply contracts. On January 19, 2009, Gazprom and Naftogaz entered into contracts for the sale and transit of natural gas through the territory of Ukraine for the period from 2009 to 2019. Starting in 2010, the transit fee charged by Ukraine is calculated on the basis of the market formula established under the contracts. By January 21, 2009, gas supplies to European consumers through Ukraine had resumed. We also resumed supplies to Ukrainian consumers. See "Risk Factors—Risks Relating to Our Business—We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas" and "—Gas Marketing—The FSU."

In June 2010, following a dispute with Belarus, we suspended our supplies of natural gas to Belarus for a short period of time. During our dispute with Beltransgaz, as well as during the settlement of our previous disputes, our European customers received necessary volumes of natural gas pursuant to the terms of our contracts. In July 2010, Gazprom and Beltransgaz signed a supplement to the contract for supply and transit of

natural gas for the period from 2007 to 2011 to clarify the terms and conditions for the transit and supply of natural gas. See "Gas Marketing—The FSU."

Our projects to expand transportation routes and the network of UGSFs, including the Yamal-Europe pipeline and the Blue Stream project, which are completed, the Nord Stream and the South Stream project and acquisition of a 50% interest in Beltransgaz, which was completed in 2010, are expected to reduce our dependence on Ukraine and Belarus for the transportation of natural gas to western Europe and Turkey. See "—Joint Ventures and Alliances—Beltransgaz."

WINGAS. WINGAS, a joint venture with Wintershall, in which we currently own a 49.98% interest, owns WINGAS Transport, a gas transportation company, and Rehden, the largest UGSF in western Europe with storage capacity of about 4.5 bcm and daily withdrawal capacity of 45 mmcm. WINGAS is a European energy provider active in natural gas trading and distribution in Germany, Belgium, France, the United Kingdom, Austria, the Czech Republic and Denmark. The WINGAS Transport gas transportation pipeline network, which is over 2,000 kilometres long, connects our major export gas flows going through Belarus and Poland (the Yamal-Europe pipeline) as well as through Ukraine, Slovakia and the Czech Republic to the growing markets in western Europe.

United Kingdom Interconnector pipeline. We own a 10% interest in Interconnector (UK) Limited, the owner and operator of an offshore gas pipeline connecting Belgium and the United Kingdom. We currently rent the capacity in the Interconnector pipeline on a long-term basis in the annual amount of 2 bcm of natural gas from the United Kingdom to continental Europe and approximately 6 bcm of natural gas from continental Europe to the United Kingdom. Our subsidiary GM&T uses the capacity of the Interconnector pipeline to sell gas in the U.K. market. See "—Gas Marketing—Europe and Other Countries."

Gas transportation projects in Russia

The terms and timeline of the projects described below in this section may be revised due to changes in demand for our products.

SRTO-Torzhok pipeline. We are constructing a gas pipeline from the Urengoykoye field, in western Siberia, to Torzhok, one of the junctions in our gas transportation system. This pipeline is expected to enhance our ability to deliver natural gas to customers in the northwestern region of Russia and to export gas through the Yamal-Europe pipeline and the Nord Stream pipeline. The pipeline is approximately 2,200 km long and is expected to contain 13 compressor stations for total capacity of 968 MW. The annual projected throughput of the pipeline in various sections is between 20.5 to 28.5 bcm. We plan to complete the construction of the pipeline concurrently with the start of production in Yamal in 2012. In 2009, we commissioned the linear part of the pipeline and 10 compressor stations for a total capacity of 743 MW. Three additional compressor stations are expected to be commissioned together with the commissioning of the Bovanenkovo-Ukhta pipeline.

Gryazovets-Vyborg pipeline. The 917 km trunk pipeline from Gryazovets to Vyborg is designed to supply gas to consumers in northwestern Russia and to the Nord Stream pipeline. The project provides for the construction of two branches of pipeline and seven compressor stations for a total capacity of 1,155 MW, including the compressor station Portovaya on the shore of the Gulf of Finland. We plan to put the pipeline into operation in 2011. We expect the pipeline to reach its projected capacity in 2012. As of December 31, 2010, we constructed the linear part of the first branch of the pipeline.

Gas transportation system from the Yamal Peninsula fields. We are constructing multiple parallel pipeline systems for gas transportation from the Yamal Peninsula to the central regions of Russia to transport gas from the Bovanenkoykoye field, which is expected to have a project production capacity of 115 bcm per year, with a potential increase up to 140 bcm per year. The system is expected to consist of large diameter pipes (1,420 mm) and operate at a higher pressure than our existing pipeline system. The length of the pipeline system is expected to be about 2,600 km, including the new 1,247 km twin pipe gas transportation corridor from Bovanenkovo to Ukhta, including 1,371 km pipeline from Ukhta to Torzhok and 18 compressor stations for

total capacity of 1,965 MW. The projected capacity of the first branches of the Bovanenkovo-Ukhta section and the Ukhta-Torzhok section is 60 bcm and 45 bcm, respectively.

We plan to commission the first phase of the construction project in 2012, which will include the construction of the first branch of the pipeline, including a twin line crossing through Baydaratskaya Bay (the linear part, including all of the connecting passages and links is expected to be 1,237 km long), the Baydaratskaya compressor station with the capacity of 96 MW and annual gas supplies of up to 15 bcm. As of December 31, 2010, we constructed 720 km of the Bovanenkovo-Ukhta gas pipeline, including the first branch of the crossing through Baydaratskaya Bay.

Murmansk-Volhov pipeline. The Murmansk-Volhov pipeline is designed to ensure gas supplies from the Shtokmanovskoye field to consumers in northwestern Russia. The pipeline is approximately 1,365 km long. The pipeline is expected to include ten compressor stations with a total capacity of 1,225 MW. The pipeline's projected throughput is up to 46 bcm depending on production volumes. The commissioning of the pipeline and increase in transportation volumes will depend on the putting on stream of the Shtokmanovskoye field. See "—Reserves and Production—Exploration, Development and Productions regions—Russian sea shelf." The research and development of the project is currently underway.

Pochinki-Gryazovets pipeline. We are constructing the pipeline to provide the Gryazovetsky gas transmission centre with additional gas supply volumes from the Yamal fields. The project involves the construction of approximately 653 km of pipeline and five compressor stations for total capacity of 416 MW, which is expected to increase gas transportation volume by up to 36 bcm. We plan to complete the construction of the pipeline's first phase in 2012. As of December 31, 2010, we commissioned approximately 300 km of the pipeline and a compressor station with the capacity of 96 MW.

Sakhalin-Khabarovsk-Vladivostok pipeline. The pipeline is among the top-priority projects envisaged by the Eastern Programme. The total projected length of the pipeline is 1,837 km and the annual projected throughput of natural gas from the fields located on Sakhalin is 28.5 bcm. In September 2011, the first start-up complex of the pipeline, with a length of 1,350 km, and a compressor station with the capacity of 96 MW and the annual projected capacity of 6 bcm of natural gas, were put into operation. In 2008, we obtained control over and in 2010 became a sole shareholder of OAO Daltransgaz, which owns the gas transportation system connecting Komsomolsk-on-Amur and Khabarovsk with a length of approximately 474 km.

Gas supply system in the Irkutsk region. In accordance with the general gas supply and gasification programme for the Irkutsk region, we are designing and constructing a system of gas trunk pipelines and gas distribution pipelines in the Irkutsk region. In December 2007, we commissioned the first stage of the trunk gas pipeline from the Bratskoye field to the city of Bratsk with the total length of 27 km. Upon completion, however, the length of the entire gas pipeline will be 70 km. We expect that it will be able to completely satisfy the demand for gas in the region. In 2008, we ran a pilot operation at the Chikanskoye gas condensate field which is expected to become the base field for the supply of gas to the Central and Southern districts of Irkutsk Region. Currently, we are considering the possibility of constructing the gas pipeline from the Chikanskoye field to Sayansk, Angarsk and Irkutsk.

Sobolevo-Petropavlovsk-Kamchatsky pipeline. In September 2010, we put into operation the Sobolevo-Petropavlovsk-Kamchatsky gas trunk pipeline to supply gas to the consumers in the Kamchatka region. The length of the pipeline is 395 km. The annual capacity of the pipeline is up to 750 mmcm.

Altai Gas Pipeline. The construction of this gas pipeline will enable supplies of Russian gas to China via the western route. The length of the gas pipeline is expected to be approximately 2,662 km and will include 10 compressor stations with a total annual capacity of 896 MW with the annual throughput being 30 bcm of natural gas. We are currently engaged in negotiations regarding the commercial terms of such gas supplies and a final decision in relation to construction will be taken after the conclusion of these commercial negotiations.

UGSS extension. This project is aimed at creating additional gas transportation facilities within Russia in order to ensure supply of gas to the South Stream gas pipeline. This project envisages the construction of a pipeline system with a throughput of up to 63 bcm of natural gas per annum and with a total length of approximately 2,446 km, comprising 10 compressor stations with a total capacity of 1,475 MW. As of December 31, 2010, the route for the pipeline had been determined, the relevant background data had been collected, the terrain analysis had been performed and the decision to draw up the project documentation had been taken.

Dzhubga – Lazarevskoye – Sochi. The aim of this project is to enable the supply of gas to consumers in Tuapse and its adjacent districts and the Olympic facilities in the Sochi region, as well as to ensure power security of this region in general. The 172 km long gas pipeline (of which 90% is offshore and runs along the Black Sea coast) with a capacity of 3.8 bcm of gas per annum was put into operation in June 2011. It is expected that the Adler thermal power plant will be the main consumer of the gas which is to be supplied through this pipeline.

International projects in gas transportation

Nord Stream. The Nord Stream pipeline is a conceptually new export route for Russian gas to Europe and one of our long-term strategic priorities. The Nord Stream pipeline is expected to diversify our export routes and increase the reliability of our natural gas supplies from Russia to western European markets by avoiding the political and economic risks related to the transit deliveries through third-party countries.

The European Union included the Nord Stream project in the list of the priority corridors of Trans-European Energy Networks (TEN-E). The projected annual capacity of the Nord Stream pipeline is approximately 55 bcm of natural gas. The pipeline is planned to extend under the Baltic Sea for 1,224 km from Vyborg, Russia to Greifswald, Germany, and it will consist of two pipeline branches. The project is primarily targeted on the markets of Germany, the United Kingdom, the Netherlands, France and Denmark.

Nord Stream AG, a Switzerland-based joint venture that was initially named North European Gas Pipeline Company, is engaged in all stages of implementation of the Nord Stream pipeline project, including the design, construction, ownership and operation of the pipeline. We hold a 51% interest in this joint venture. Wintershall Oil AG (BASF Group) and PEG Infrastruktur AG (E.ON Group) each own 15.5% of the joint venture and Gasunie Infrastruktur AG (Gasunie Group) and GDF Suez Holding Switzerland AG (GDF Suez Group) each own 9%.

Nord Stream has obtained all necessary governmental approvals from the states in whose territorial waters and/or exclusive economic zones the pipeline is to be constructed. Nord Stream started pipe-laying works in April 2010. In May, 2011 laying works for the first line of the pipeline were completed. Commissioning of the first line is scheduled for later this year and the second line is expected to be commissioned in 2012.

South Stream. The project provides for gas supply to the European markets through the Black Sea by establishing a new south export route. Combined with current export routes, we expect this would increase the reliability and flexibility of our natural gas supplies to Europe. The 930 km long off-shore portion of the pipeline is expected to pass from the Russian coast to the coast of Bulgaria over 2 km under the Black Sea. The projected annual capacity of the offshore part of the project is 63 bcm of natural gas. The pipeline is expected to be put into operation in 2015.

In September 2011, we signed a shareholders' agreement for the offshore section of the South Stream project with Eni, BASF and EDF, pursuant to which BASF (acting through Wintershall Holding) and EDF, each acquired a 15% share in the offshore section of the South Stream Project through a 30% reduction in Eni's stake. As a result, Eni now holds a 20% stake while Gazprom holds a 50% stake, with Wintershall Holding and EDF holding a 15% stake each.

Various routes through south and central Europe are being considered for the construction of the on-shore part of the pipeline. Intergovernmental agreements for cooperation in implementation of the project have been signed with governments and joint project companies have been established with partner companies of Bulgaria, Serbia, Hungary, Greece, Slovenia, Croatia and Austria. We are currently analysing the consolidated feasibility study of the project and expect to finalise this process in the third quarter of 2011.

Central European Gas Hub. In January 2008, we signed an agreement with OMV confirming our intention to participate on a *pro rata* basis in the Central European Gas Hub ("CEGH") currently owned by OMV. The CEGH, located at the border of Austria and Slovakia at the intersection of a number of large trunk gas pipelines, acts as a forwarding agent and renders control and optimisation services in gas transportation. The parties expect to develop the CEGH into the largest gas hub in Europe. In addition, the parties have agreed to cooperate in the construction and use of strategic and operational underground storage facilities to be linked to the CEGH infrastructure.

Central Asia. Pursuant to the strategic cooperation agreements with respect to purchases of natural gas in central Asia, we are considering joint projects to assess and promote cooperation in gas transportation among Russia, Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan. We are also working to begin construction of the Prikaspiysky pipeline.

The Central Asia Center gas transportation system connects Turkmenistan, Uzbekistan, Kazakhstan and Russia. As a result of various upgrade measures that were undertaken between 2005 and 2009, it has an annual capacity of 43 to 60 bmc.

In December 2007, an intergovernmental agreement was signed on the construction of the Prikaspiysky pipeline which is expected to run from the Belek compressor station in Turkmenistan through the Beyneu compressor station in Kazakhstan to the Alexandrov Gay compressor station in Russia. The annual capacity of the pipeline is expected to be up to 30 bcm to the Alexandrov Gay compressor station. In July 2008, we signed an agreement with GK Turkmengaz in relation to the general principles of cooperation in construction of gas facilities that grants us the right to participate in the design and construction of gas pipelines in Turkmenistan. The construction of the pipelines have not yet begun.

Burgas-Alexandroupolis oil pipeline. Gazprom Neft plans to participate in the construction project for the Burgas-Alexandroupolis oil pipeline, which is intended to be routed around Turkey, through the territories of Bulgaria and Greece. The expected length of the pipeline is 280-290 km. The pipeline's initial capacity is expected to be 35 million tons of crude oil per year and could potentially increase to 50 million tons per year. The pipeline is expected to provide a route for crude oil transportation from the ports of the Black Sea to the markets of Europe, the USA and the Asian-Pacific countries. Russia's 51% interest in the project is managed by OOO Truboprovodny Konsortsium Burgas-Alexandroupolis, of which 33.33% is owned by Rosneft, 33.34% is owned by Transneft and 33.33% is owned by Gazprom Neft. Greece and Bulgaria hold the remaining stake in equal proportions. In January 2008, a shareholders agreement of the Russian-Greek-Bulgarian company was signed. In February 2008, Trans- Balkan Pipeline B.V. was registered in the Netherlands. The company is currently finalising a feasibility study.

Iran-Armenia pipeline. In March 2006, we entered into a 25-year agreement with the Armenian government. Pursuant to the agreement, ArmRosGazprom, our subsidiary, in which we hold an 80% interest, plans to acquire the 40 km long Armenian section of the Iran-Armenia pipeline. The agreement also provides that the Armenian government will appoint ArmRosGazprom as the agent for the construction of a section of the Iran-Armenia pipeline, which is approximately 197 km long. In 2009, the construction of the second section of the Iran-Armenia gas pipeline was completed and commissioned.

Gas Storage

Our gas storage segment generally renders gas storage services to our Distribution segment.

The following table sets forth selected financial data with regard to our Gas storage segment as defined in our financial statements prepared in accordance with IFRS.

	Gas storage				
	As of and for the three month period ended March 31,		As of and for the year ended December 31, ⁽¹⁾		As of and for the year ended December 31, ⁽²⁾
	2011	2010	2010	2009	2009
	Unaudited		Unaudited		Audited
			Audited	Revised	
Assets, million RR.....	166,966	161,750	169,146	125,069	125,069
Share of Group's total assets, %	2%	2%	2%	1%	1%
Sales ⁽³⁾ , million RR.....	262	236	931	838	838
Share of Group's total sales, %.....	0%	0%	0%	0%	0%
Capital additions, million RR.....	1,241	1,089	17,355	9,549	9,549
Share of Group's total capital additions, %.....	1%	1%	2%	1%	1%

Note:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.
- (3) Excluding inter-segment and intra-segment operations.

Gas storage in Russia

We currently operate a network of 25 UGSFs in Russia in order to help smooth seasonal fluctuations in the demand for gas. The total active capacity of UGSFs amounted to 65.4 bcm as of December 31, 2010. All of our UGSFs are located either in close proximity to our major consumers or at the main hubs of our transportation system, which provides us with flexibility in the redirection of gas flow if required. During peak heating periods, we supply approximately 20% of total deliveries of natural gas to Russian consumers from our gas storage network, and in periods of extreme cold this may reach 30%.

In 2010, we injected into Russian UGSFs 47.7 bcm of natural gas and withdrew 40.8 bcm of natural gas.

Gas storage in Europe

In order to ensure reliable natural gas supplies and fulfil its contractual obligations, Gazprom uses UGSFs located in European countries: Austria (Haidach UGSF), the UK (Humbly Grove UGSF), Germany (Rehden UGSF and UGSF capacities belonging to Verbundnetz Gas AG), Latvia (Incukalna UGSF), and France (Vitol's UGSF capacities). We also participate in the construction of new UGSFs in Europe. In 2010, we injected 4.4 bcm of natural gas into and withdrew 3.0 bcm of natural gas from UGSFs located in foreign countries.

We are currently expanding our access to UGSFs in European countries, which serve as transit territories for the bulk of Russian exports, while continuing to ensure reliable gas supplies. The successful implementation of such projects will allow us to increase natural gas storage capacities in Europe significantly and to bring them up to approximately 5 bcm of active gas by 2015. Along with gas storage capacities that we can access through our participation in WINGAS, we concluded a number of agreements to expand our access to European gas storage facilities:

Haidach. In 2005, we established a joint venture with WINGAS, RAG AG, Centrex and Gazprom Germania GmbH, to construct and operate the Haidach UGSF in northwest Austria. In May 2011, the joint venture commenced the second stage of the UGSF and increased its capacity up to 2.8 bcm and daily withdrawal capacity up to 28 mmcm. We have access to 1.9 bcm of active capacity of the UGSF. We plan to consider further increases in capacity of the Haidach UGSF.

Katharina. In April 2008, we signed a consortium agreement with Verbundnetzgas AG to jointly construct natural gas storage facilities in Germany, and, in May 2009, we established a joint venture Erdgasspeicher Peissen GmbH to implement the construction of the Katharina UGSF in Germany. Within the framework of the joint venture, the active storage capacity is expected to reach over 600 mmcm, and daily withdrawal capacity is expected to be up to 12 mmcm upon completion of the project. The project is expected to reach the designed capacity in 2025. We have a 50% participation interest in the project pursuant to the agreement. In May 2011, the parties took a final investment decision as regards the implementation of the project.

Humbly Grove. In July 2005, we signed a lease contract with Vitol for access to 50% of Humbly Grove underground gas storage capacities in the southern part of England until 2011. This lease provides us with access to 151 mmcm of natural gas storage capacity. Beginning in 2007, we increased our access up to 75% (227 mmcm). In 2011, we signed with Vitol a further agreement to extend the lease contract until 2016.

Banatsky Dvor. In October 2009, Gazprom Export, Gazprom Germania GmbH and Srbijagas signed an agreement to establish a joint venture for construction and use of the UGSF Banatsky Dvor (Serbia). The joint venture was set up in February 2010. We hold a 51% participation interest in the project. The active storage capacity of the facility amounts to 450 mmcm. Currently, work in order to obtain the necessary permits and licenses is being undertaken. We expect to put the UGSF into operation in 2011.

Bergermeer. In August 2009, we signed an agreement with the Bergermeer Underground Gas Storage project consortium, consisting of Energie Beheer Nederland, Dyas B.V., Dyas B.V., Petro-Canada and TAQA Energy. Pursuant to the agreement we undertook to deliver 4.7 bcm of cushion gas for the Bergermeer UGSF in exchange for access to gas storage capacity in the amount of 1.9 bcm. Construction started in 2010 and the facility is expected to commence operations in 2014.

Damborice. We are considering the construction of a UGSF in Damborice (the Czech Republic) on the basis of a depleted field, in cooperation with AO Moravskaya Neftyanaya Kompaniya. The project design storage capacity is approximately 450 mmcm with a daily throughput estimated at 7 to 9 mmcm.

Soltfleetby. WINGAS and ZMB Gasspeicherholding GmbH have established a joint venture and are currently designing a UGSF on the basis of the Soltfleetby gas field in the U.K. The design storage capacity is expected to be 775 mmcm with a daily throughput estimated at 8.5 mmcm.

Other projects. We also are studying the possibility of joint projects with respect to the participation in UGSFs projects in Turkey, Romania, Slovakia, Belgium, Italy, France and other countries.

Refining

This section sets forth information with regard to our Refining segment as regards processing of oil, gas condensate and other hydrocarbons and sales of refined products. For information relating to sales of refined products, gas condensate and other hydrocarbons, see "Gas Marketing—Sales of Liquid Hydrocarbons and refined products."

Financial highlights

Our refining segment operates in processing of oil, gas condensate and other hydrocarbons, and sells refined products to other segments and third parties.

The following table sets forth selected financial data with regard to our Refining segment as defined in our financial statements prepared in accordance with IFRS.

	Refining of oil, gas condensate and other hydrocarbons and sales of refining products				
	As of and for the three month period ended March 31,		As of and for the year ended December 31, ⁽¹⁾		As of and for the year ended December 31, ⁽²⁾
	2011	2010	2010	2009	2009
	Unaudited		Audited	Unaudited Revised	Audited
Assets, million RR	863,285	775,260	819,440	747,980	746,270
Share of Group's total assets, %	9%	8%	8%	9%	9%
Sales ⁽³⁾ , million RR	214,887	153,545	709,062	540,505	540,505
Share of Group's total sales, %	16%	16%	19%	17%	17%
Capital additions, million RR	15,487	6,716	78,712	41,557	41,557
Share of Group's total capital additions, %	9%	5%	9%	6%	6%

Note:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.
- (3) Excluding inter-segment and intra-segment operations.

Our natural gas and gas condensate refining operations consist of the operations of our principal refining facilities owned by our wholly owned subsidiaries, primarily Gazprom Pererabotka, Gazprom dobycha Astrakhan, Gazprom dobycha Orenburg and Vostokgazprom Group. Gazprom Neft processes most of our crude oil at the Omsk and Moscow Oil Refineries, refining facilities of Slavneft and refineries of NIS. Beginning in the third quarter of 2008, the financial results of Gazprombank or its subsidiaries or affiliates, including Sibur Holding, which processes associated gas, are no longer consolidated in the Group's financial statements. Our subsidiary OOO Sibmetahim ("Sibmetahim") coordinates our methanol production. As of December 31, 2010, our total annual processing and refining capacity was 52.5 bcm of natural gas and 75.4 million tons of unstable gas condensate and crude oil.

Processing of oil, natural gas and gas condensate

The following table sets out total hydrocarbon feedstock input we used at refining facilities for the periods indicated.

	For the year ended December 31,		
	2010	2009 ⁽¹⁾	2008 ⁽²⁾
Natural gas, bcm	33.6	30.4	38.4
including gas processing subsidiaries	33.6	30.4	33.3
including Sibur Holding (associated gas)	—	—	5.1
Unstable gas condensate and crude oil, million tons	50.2	44.3	40.1
including gas processing subsidiaries	12.3	10.9	11.7
including Gazprom Neft in Russia	35.0	31.0	28.4
including Gazprom Neft abroad	2.9	2.4	—

Notes:

- (1) The results of NIS and Moscow Oil Refinery are included for the periods following their consolidation on February 1, 2009 and June 23, 2009, respectively.
- (2) The results of Sibur Holding are included for the period prior to its deconsolidation on July 1, 2008.

Our gas refining facilities process natural gas for pipeline transportation and stabilise gas condensate. As part of the refining process, these refining facilities engage in the removal of hazardous and corrosive substances from natural gas. They also produce a broad range of refined products based on extracted hydrocarbons.

The following table sets out information on our principal natural gas and gas condensate refineries, oil processing and petrochemical plants as of December 31, 2010. As of the date of this Prospectus, there have been no significant changes in this information.

Name	Company	Location	Year of establishment	Annual capacity of processing/ Product range production	Product range
Gas and gas condensate processing plants					
Astrakhan gas processing plant (GPP)	OOO Gazprom dobycha Astrakhan	Astrakhan	1986	12.0 bcm of gas, 7.3 million tons of gas condensate and crude oil	Dry natural gas, stable condensate, liquefied gas, wide fraction of light hydrocarbons (WFLH), gasoline, diesel fuel, heating oil, sulphur
Orenburg GPP	OOO Gazprom dobycha Orenburg	Orenburg	1974	37.5 bcm of gas, 6.2 million tons of gas condensate and crude oil	Dry natural gas, stable condensate, liquefied gas, WFLH, gas sulphur, odorants
Orenburg helium plant	OOO Gazprom dobycha Orenburg	Orenburg	1978	15.0 bcm of gas	Helium gaseous and liquefied, dry natural gas, liquefied gas, ethane, WFLH, PHF
Sosnogorsky GPP	OOO Gazprom pererabotka	Sosnogorsk, Komi republic	1946	3 bcm of gas, 1.25 million tons of unstable condensate (deethanisation)	Dry natural gas, stable gas condensate, liquefied gas, motor gasoline, technical carbon
Urengoy condensate preparation plant	OOO Gazprom pererabotka	Urengoy	1985	13.9 million tons of unstable condensate (deethanisation and stabilisation)	De-ethanised gas condensate, stable gas condensate, liquefied gas, motor gasoline, diesel fuel, gas condensate light distillate (GCLD)
Surgut condensate stabilisation plant	OOO Gazprom pererabotka	Surgut	1985	8.05 million tons of unstable condensate including deethanised (stabilisation)	Stable gas condensate (oil), motor gasoline, diesel fuel, TS-1 engine jet fuel, liquefied gas, WFLH, PHF, GCLD
Methanol production plant	OOO Sibmetahim	Tomsk	1983	750 thousand tons of methanol	Methanol, formalin, amino-formaldehyde resin
Gazprom Neft					
Omsk oil refinery	OAo Gazprom Neft	Omsk	1955	19.5 million tons of oil	Motor and technical gasoline, diesel fuel, jet fuel, heating oil, lubricants, aromatic hydrocarbons, hydrocarbon liquefied gases, oil bitumen, sulphur
Moscow oil refinery	OOO Moscow Oil Refinery	Moscow	1938	12.15 million tons of oil	Motor and technical gasoline, diesel fuel, jet fuel, heating oil, oil asphalt, hydrocarbon liquefied gases, sulphur
Oils and lubricants producing plant in Bari	Gazpromneft Lubricants Italia S.p.A.	Bari (Italy)	1976	30 thousand tons of oils and 6 thousand tons of lubricants	Motor and technical oils, lubricants
Oil refinery in Panchevo	NIS	Panchevo (Serbia)	1968	7.3 million tons of oil	Motor and technical gasoline, diesel fuel, jet fuel, heating oil, odorants, hydrocarbon liquefied gases, liquid bitumen, sulphur, propylene
Oil refinery in Novi-Sad	NIS	Novi-Sad (Serbia)	1968		Motor gasoline, diesel fuel, heating oil, lubricants, liquid bitumen

In addition, Gazprom Group has an access to capacities of OAO Slavneft- Yaroslavnefteorgsintez due to participation in the charter capital of OAO NGK Slavneft:

Name	Company	Location	Year of establishment	Annual capacity of processing/ Product range production	Product range
Yaroslavnefteorgsintez	OOO NGK Slavneft	Yaroslavl	1958-1961	15.2 million tons of oil	Motor and technical gasoline, diesel fuel, jet fuel, heating oil, lubricants, odorants, sulphur, sulphuric acid, paraffin and wax products

Gazprom Neft processes its crude oil mainly at the Omsk Refinery, which we believe is one of the most technologically advanced refineries in Russia and has a leading position in the industry in terms of volumes and depth of crude oil processing. The Omsk Refinery is a short distance from Gazprom Neft's main production fields and therefore provides the benefit of low transportation costs. Gazprom Neft also processes crude oil at the Moscow Oil Refinery, which it controls, and at Slavneft's refineries, which it and TNK-BP own equally. Gazprom Neft has access to the processing capacity of Slavneft's refineries in proportion to its interest.

We continue to prioritise our investments into oil refining via a programme focused on the quality of motor fuel. In accordance with this programme, we have started the construction of new facilities and the reconstruction of existing facilities. Currently, the programme is aimed at meeting the requirements of technical regulations, including the Euro-4 motor fuel standard, by the Omsk Refinery from January 2012 and by the Moscow Oil Refinery from the second half of 2012.

In 2008, pursuant to the memorandum on cooperation, Gazprom Neft and OJSC Moscow Oil and Gas Company ("MNGK") transferred their interests in Moscow Oil Refinery to Moscow NPZ Holding B.V., a company in which each party owns a 50% interest. Moscow NPZ Holding B.V. currently holds 90.63% of the voting shares (77.72% of the charter capital) of Moscow Oil Refinery. The memorandum also sets forth a programme of comprehensive modernisation of Moscow Oil Refinery for the period from 2009 to 2012 to improve the quality of its products.

Between April 2009 and February 2011, Gazprom Neft acquired an interest of 100% in Sibir Energy. The total cost of the acquisition amounted to U.S.\$3.2 billion. Sibir Energy is a vertically integrated oil production company with production operations in the Khanty- Mansiisk Autonomous Area (western Siberia). See "—Reserves and Production—Exploration, Development and Production regions—Western Siberia (Urals federal district)." Sibir Energy is a major shareholder in the Moscow Oil and Gas Company and indirectly controls OAO "Moscow Petroleum Company" and OAO "Mosnefteproduct" that own over 134 fuel stations in Moscow and the Moscow region. As a result of acquisition of Sibir Energy, Gazprom Neft acquired control over Moscow Oil Refinery with an effective interest of 77.72%.

In February 2009 we acquired a 51% interest in the Serbian oil company NIS for RR18.5 billion (400 million euro) including two refineries in Panchevo and Novy-Sad with total capacity of 7.3 million tons of oil per year. Under the purchase agreement we undertook to invest 547 million euro in the reconstruction and modernisation of NIS' refinery facilities by 2012. In March 2011, the Group, under the terms of a mandatory offer, acquired from the shareholders of the Serbian company NIS an equity stake constituting 5.15% of its charter capital. As a result, the Group interest amounts to 56.15% of the company's charter capital.

In April 2009, Gazprom Neft acquired an oils and lubricants producing facility from Chevron Global Energy in Italy for euro 5 million. The production capacity of the plant is up to 30 thousand tons of oils and six tons of lubricants annually. Gazprom Neft expects to achieve marketing and production synergies between this facility and the asset of NIS that were purchased by Gazprom Neft early in 2009.

The following table sets out the total production of our refining facilities for the periods indicated.

	For the year ended December 31,		
	2010	2009⁽¹⁾	2008⁽²⁾
Stable condensate and oil, thousand tons.....	3,828.3	3,408.2	3,413.8
Stripped dry gas, bcm.....	26.2	24.2	30.9
Liquefied hydrocarbon gases, thousand tons.....	3,119.3	2,806.6	4,104.1
Motor gasoline, thousand tons.....	9,368.8	8,648.8	7,606.2
Technical gasoline, thousand tons.....	1,620.1	2,129.9	1,914.2
Diesel fuel, thousand tons.....	12,830.9	11,214.2	10,406.6
Jet fuel, thousand tons.....	2,598.1	2,276.0	1,967.3
Furnace fuel oil, thousand tons.....	8,176.4	6,355.6	6,138.5
Lubricants, thousand tons.....	367.1	371.4	328.3
Sulfur, thousand tons.....	5,250.4	4,404.6	5,385.9
Helium, thousand cubic meters.....	4,856.1	4,892.6	5,037.9
Odorant, thousand tons.....	3.3	3.0	3.0
Wide fraction of light hydrocarbons, thousand tons.....	491.7	454.0	1,488.5
Ethane, thousand tons.....	384.1	362.1	327.2
Technical carbon, thousand tons.....	31.6	21.1	30.4
Methanol, thousand tons.....	663.2	419.0	—
Pentane-hexane fraction, thousand tons.....	151.5	35.2	111.0

Notes:

(1) The results of NIS and Moscow Oil Refinery are included for the periods following their consolidation on February 1, 2009 and June 23, 2009, respectively.

(2) The results of Sibur Holding are included for the period prior to its deconsolidation on July 1, 2008.

Deconsolidation of Sibur Holding

In June 2008, at the general shareholders meeting of Gazprombank, the shareholders elected the new board of directors of Gazprombank. Five of the twelve newly elected board members are representatives of Gazprom Group. As a result of the election, however, the Group lost its ability to control the financial and operating policies of Gazprombank and its subsidiaries, including Sibur Holding and its subsidiaries and, therefore, ceased to report on companies controlled by Gazprombank Group as its subsidiaries. Because the Group continues to exercise significant influence over Gazprombank Group, it is included in our financial statements as associated company.

Projects in refining

Karachaganak gas processing. KazRosGaz, in which we hold a 50% stake, annually purchases over 8 bcm of natural gas produced at the Karachaganak field in Kazakhstan from the field operator, Karachaganak Petroleum Operating B.V. ("KPO"), to process this gas at our Orenburg gas chemical complex. In June 2007, we entered into an agreement with KazMunaiGaz establishing the principles for a joint venture to operate the assets of the Orenburg chemical complex as equal partners. KPO and KazRosGaz have also signed a 15-year purchase and sale agreement for Karachaganak gas. The annual volume of gas purchases will be approximately 16 bcm. It is expected that KazRosGaz will acquire gas from the operator of the Karachaganak gas field and will deliver it for processing to the joint venture. We believe that delivering additional gas from Karachaganak will enable us to utilise the capacity of the Orenburg gas chemical complex and allow us to modernise the facility and to increase its capacity.

Novy Urengoy Chemical Complex. Currently, we are implementing a project for the production of low density polyethylene at the Novy Urengoy Chemical Complex. We completed the construction of the first-priority facilities and the preparation for installation of the main technical equipment. The Novy Urengoy Chemical Complex is expected to produce 400,000 tons per year of low density polyethylene in the course of processing 1.4 million tons of de-ethanised gas per year from the Urengoy Condensate Preparation Plant. We also plan to produce 300,000 tons of natural gas liquids per year and 1,260 mcm of methane per year at the complex. The project is to be implemented on the basis of project finance.

Gazprom neftekhim Salavat. In the fourth quarter of 2008, we acquired a 50% plus one share interest in OAO Gazprom neftekhim Salavat ("Gazprom neftekhim Salavat"), formerly OAO Salavatnefteorgsintez. Gazprom neftekhim Salavat is a leader in the oil and gas processing industry in Russia. Its annual processing capacity amounts to 7 million tons of crude oil and gas condensate. The company is one of the largest producers of butyl alcohol, gasoline, ethylene, propylene, polyethylene and other petrochemicals in Russia. With the anticipated increase in production of hydrocarbons, including gas condensate, in western Siberia, we believe that the acquisition of Gazprom neftekhim Salavat will enable us to expand our processing capacity in the region. We account for Gazprom neftekhim Salavat as our associated undertaking because its charter documents provide us with significant influence rather than control over the company.

Associated gas refinery. The increased usage of associated gas is consistent with our national strategies of increasing our processing capabilities and decreasing our impact on the environment. In February 2008, Gazprom Neft adopted a programme to increase the utilisation rate of associated gas up to 95% from the level of 35% in 2007. Gazprom Neft achieved a utilisation rate of 55% in 2010.

Gas Marketing

Financial highlights

This section sets forth information relating to our Distribution segment which sells gas mostly to third parties in Russia and abroad, to our Transport segment for own needs and to our Electric and heat energy generation and sales segment as well.

The following table sets forth selected financial data with regard to our Distribution segment as defined in our financial statements prepared in accordance with IFRS.

	Gas supplies				
	As of and for the three month period ended March 31,		As of and for the year ended December 31, ⁽¹⁾		As of and for the year ended December 31, ⁽²⁾
	2011	2010	2010	2009	2009
	Unaudited		Audited	Unaudited Revised	Audited
Assets, million RR	1,017,603	917,933	1,048,594	874,339	874,339
Share of Group's total assets, %	10%	10%	11%	10%	10%
Sales ⁽³⁾ , million RR	867,976	610,293	2,179,811	1,974,253	1,963,604
Share of Group's total sales, %	65%	63%	60%	63%	63%
Capital additions, million RR	6,554	5,480	37,578	27,185	27,185
Share of Group's total capital additions, %	4%	4%	4%	4%	4%

Note:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.
- (3) Excluding inter-segment and intra-segment operations.

We believe that we are the world's largest exporter of natural gas. We export natural gas (as well as gas condensate, crude oil, oil products, liquefied associated gas and other refined products) mainly through our wholly owned subsidiary, Gazprom Export. We also sell these products domestically to end consumers, including sales of natural gas through Gazprom mezhregiongaz and our regional gas sales companies.

The following table sets out our natural gas sales volumes by geographical market for the periods indicated.

	For the year ended December 31,		
	2010 ⁽¹⁾	2009 ⁽¹⁾	2008
Natural gas sales			
Russia	277.3	273.5	292.2
Europe and Other Countries ⁽²⁾	148.1	148.3	184.4
FSU Countries ⁽²⁾	70.2	56.7	96.5
Total	495.6	478.5	573.1

Notes:

- (1) Net of trading activity without supplies of natural gas.
- (2) Our sales to the FSU countries and to Europe and Other Countries include both export from Russia, and sales of gas purchased outside Russia.

According to the Gas Export Law, as the owner of the UGSS we have the exclusive right to export gas or liquefied natural gas produced in any hydrocarbon field within Russia. See "Risk Factors—Risks Relating to Our Business—We encounter competition in our largest business, natural gas sales, from alternative fuel sources and other natural gas producers and suppliers."

The natural gas market

Natural gas has been gaining an increasing share of the world energy market in recent years, in part because it is an effective and environmentally clean fuel. According to the BP Statistical Review of World Energy (June 2011) (the "BP Review"), global natural gas production increased by approximately 32% from 2000 through 2010. Volumes of traded natural gas, including through pipelines and LNG, were also increasing during that period. These increases were attributable to the growth in natural gas-fired power generating capacity, an increase in the use of natural gas for residential consumption (particularly in central and eastern Europe), a decline in the attractiveness of nuclear power, and environmental considerations (which have reduced the attractiveness of fuels such as coal). In 2010, developments in energy sector were largely driven by a recovery of the global economy. According to BP Review, the world primary energy consumption—including

oil, natural gas, coal, nuclear, hydro power and renewable resources increased by 5.6% in 2010. Natural gas consumption experienced the most significant increase, rising by 7.4%. In 2010, natural gas consumption accounted for approximately 25% of primary energy consumption in Europe and approximately 52% in the FSU.

The following table sets out primary energy and natural gas consumption in our principal markets for 2010, 2005 and 2000 as well as the percentage of natural gas consumed as a proportion of primary energy consumption in such markets for such years:

	2010	2005	2000
	(mtoe, except percentages)		
Europe⁽¹⁾			
Primary energy consumption ⁽²⁾	1,890	1,945	1,850
Gas consumption	549	518	437
Gas consumption as a percentage of primary energy consumption	29%	27%	24%
FSU (except Russia)⁽³⁾			
Primary energy consumption ⁽²⁾	307	312	281
Gas consumption	157	166	146
Gas consumption as a percentage of primary energy consumption	51%	53%	52%
Russia			
Primary energy consumption ⁽²⁾	691	657	620
Gas consumption	373	360	319
Gas consumption as a percentage of primary energy consumption	54%	55%	51%

Source: BP Statistical Review of World Energy (June 2010).

Notes:

- (1) Defined for the purposes of this table to consist of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Luxembourg, Republic of Ireland, Italy, The Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and the United Kingdom, Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia.
- (2) Primary energy consumption comprises commercially traded fuels only, including renewables required for electricity production.
- (3) Defined for the purposes of this table to consist of Azerbaijan, Belarus, Kazakhstan, Lithuania, Turkmenistan, Ukraine and Uzbekistan.

According to the BP Review, natural gas consumption in Europe (as defined in footnote (1) to the table above) represented 17% of worldwide natural gas consumption in 2010 as compared to 19% in 2000. In the period from 2000 through 2010, the proportion of natural gas in primary energy consumption in Europe rose from 24% to 29% and the consumption of natural gas increased from 437 mtoe in 2000 to 549 mtoe in 2010.

Europe and Other Countries

We are currently the only supplier of Russian natural gas to Europe. We supplied 23% of the volume of natural gas consumed in Europe in 2010 according to the statistical survey "2010 Natural Gas Year Review. CEDIGAZ' First Estimates (April 2011)". France, Germany, Italy, Turkey and the United Kingdom were our largest export markets in Europe for that year. We are actively seeking to increase our European export efficiency and have entered into various joint ventures abroad, such as WIEH and WINGAS in Germany. See "—Transportation—International projects in gas transportation" and "Gas storage." These joint ventures allow us to capture a margin from sales of gas to industrial, energy and utility sectors as well as to households, in addition to receiving export proceeds from deliveries at the borders of the markets we serve. Since 2005, we have also participated in LNG trading transactions worldwide.

The global economic recovery in 2010 led to an increase in the consumption of gas. While in the Russian Federation the consumption of gas increased by 10.8%, the consumption of gas in the European markets (according to estimates provided by CEDIGAZ - source: www.cedigaz.com) increased by approximately 4.9%. However, despite this growth in demand, the sales of Russian gas in overseas markets actually declined marginally during 2010 as compared to the previous year. The excessive volumes of LNG that were offered to the European market as result of the simultaneous commissioning of a large number of gas liquefaction facilities globally and the setting up of re-gasification facilities within European countries in turn continued to put pressure on the choice of Russian gas by European consumers purchasing gas under long-term contracts.

For the three months ended March 31, 2011 and 2010, our gas sales to Europe and Other Countries accounted for approximately 26% and 26% of the volume of natural gas we sold and for 46% and 47% of our natural gas net sales revenues for the periods indicated. In the years ended December 31, 2010 and 2009, our gas sales to Europe and Other Countries accounted for approximately 30% and 31% of the volume of natural gas we sold and for 50% and 58% of our natural gas net sales revenues for the periods indicated.

The following table sets out our natural gas sales volumes to Europe and Other Countries for the periods indicated.

Country	For the year ended December 31,		
	2010 ^{(1),(2)}	2009 ^{(1),(2)}	2008 ^{(1),(2)}
	(bcm)		
Austria	5.6	5.4	5.8
Belgium	0.5	0.5	3.4
Finland	4.8	4.4	4.8
France	8.9	8.3	10.4
Germany	35.3	33.5	37.9
Greece	2.1	2.1	2.8
Italy	13.1	19.1	22.4
Switzerland	0.3	0.3	0.3
The Netherlands	4.3	4.3	5.3
Turkey	18.0	20.0	23.8
United Kingdom	10.7	11.9	7.7
Bosnia and Herzegovina	0.2	0.2	0.3
Bulgaria	2.3	2.2	2.9
Croatia	1.1	1.1	1.2
Czech Republic	9.0	7.0	7.9
Hungary	6.9	7.6	8.9
Macedonia	0.1	0.1	0.1
Poland	11.8	9.0	7.9
Romania	2.6	2.5	4.2
Serbia	2.1	1.7	2.2
Slovakia	5.8	5.4	6.2
Slovenia	0.5	0.5	0.6
Total sales to Europe.....	146.0	147.1	167.0
Other ⁽³⁾	2.1	1.2	0.6
Total sales to Europe and Other Countries⁽⁴⁾	148.1	148.3	167.6

Notes:

- (1) Management estimates.
- (2) Net of trading activity without supplies of natural gas.
- (3) Includes LNG sales.
- (4) Totals may not sum due to rounding.

Europe

We export natural gas to Europe mostly pursuant to long-term contracts, which generally include the following terms:

- price-setting mechanisms that are based on prices for alternative forms of energy such as oil products;
- price adjustment clauses pursuant to which the formulae for determining the price of natural gas under the contracts is generally reviewed once every three years if market conditions have changed significantly;
- clauses that prevent unilateral termination except in instances of prolonged force majeure;
- extension clauses that provide for the automatic extension of the contract upon expiration unless one of the parties objects; and
- "take-or-pay" provisions that provide that: (i) off-takers who have purchased less than the minimum contracted-for annual volume of natural gas at year's end are required to pay for some portion (but generally not all) of the shortfall; and (ii) such payment is credited to the off-taker if, in a subsequent year, the off-taker purchases more than the minimum contracted-for volume of natural gas.

We are a party to long-term supply contracts with major western European customers which have remaining terms of between 6 and 28 years.

We are paid in U.S. dollars, pounds sterling and euro for the natural gas we export to Europe. Currently, approximately 38% of our Europe and Other Countries net sales are denominated in euro.

Long-term supply contracts have historically been the basis for stability in the European natural gas market. By providing multi-year guarantees for natural gas supply and offtake, long-term contracts meet both suppliers' and consumers' strategic interests. With change in the balance between the demand and supply in the European gas market and a sharp decline in spot natural gas prices compared to prices tied to oil, we are prepared to consider a temporary decrease in the take-or-pay level during the period of a lower demand for and oversupply of natural gas. This decrease, however, will be compensated by the obligations of our partners to purchase additional amount of gas after stabilisation of the financial and economic situation and recovery of the natural gas consumption level. Additionally, significant changes in the market conditions make it appropriate to revise prices pursuant to the terms and conditions specified in our long-term contracts.

We have adjusted our export contracts in response to current market conditions and have proposed a system of incentives to our customers. Between 2010 and 2012, we intend to shift a portion of our supplies of gas which customers are obligated to purchase under certain contracts to subsequent periods. In the aggregate, we anticipate postponing supplies of 15 bcm of natural gas in this three year period. At the same time, our system of incentives is designated to stimulate offtake of natural gas in excess of minimal volumes, including adjusted minimal volumes, identified in our "take-or-pay" clauses. In addition, some contracts provide for a specific volume of gas to be sold at a spot price even if such price happens to be higher than the price in our long-term contracts. Despite such adjustments, our long-term contracts continue to be based on price formula tied to prices for petroleum products and the "take-or-pay" principle. We expect that the measures we are implementing currently are temporary, and we expect to reinstate the original terms and conditions in our contracts after demand for natural gas in Europe recovers.

Over the recent period, we have extended a number of our existing export contracts through 2027-2035 and entered into new agreements, including those for additional gas deliveries through the Nord Stream pipeline and direct access to end consumers in certain European countries, including Austria, Italy and France. As a result of these extensions and on the basis of other currently existing long-term gas supply contracts with European customers, we have contracted a minimum amount of gas deliveries to Europe of 158 bcm annually for the period from 2020 to 2025.

Further, in accordance with our marketing strategy, we are aiming to increase the volume of gas sales that are made directly to end consumers in Europe. The total volume of gas sales to end consumers of Great Britain, France, the Czech Republic and Italy amounted to 4.7 bcm in 2010 compared to 3.2 bcm and 2.2 bcm in 2009 and 2008, respectively.

European gas markets are undergoing significant restructuring. In particular, the Gas Directive has sought to deregulate and liberalise the EU gas market by introducing greater competition into the market and reducing gas prices for the end-user. See "—Competition—Europe."

In accordance with our development strategy, we expand our trading operations in the international energy markets. We conduct our trading operations in the deregulated natural gas markets through our subsidiary Gazprom Marketing & Trading (GM&T). Since its establishment in 1999, GM&T has been engaged in spot and short-term trade of natural gas, retail operations, operations in power, crude oil and oil product markets and greenhouse gases emission quotas trading. Currently, GM&T operates through its subsidiaries in the United Kingdom, Belgium, France, Germany, the Netherlands, Ireland and other countries. In 2006, Gazprom Marketing & Trading USA was established to operate in the USA. According to Platts, Gazprom Marketing & Trading USA is listed among 30 largest US companies in terms of sales of natural gas. In 2009, Gazprom Marketing & Trading Singapore, which became an important link between offices in the USA and the United Kingdom, started trading operations in Asia and allowed us to conduct day-and-night operations in the foreign exchange and crude oil markets. Net income of GM&T increased in 2010 to £174.2 million compared to £114.8 million in 2009 and £50.8 million in 2008. We intend to further develop GM&T operations and use GM&T as a foundation for the expansion of our presence in the global energy markets.

In September 2010, we signed the Extended General Conditions for Gas Supply with the China National Petroleum Corporation under the terms of which gas sale and purchase contracts are expected to be drawn up. It is expected that these sale and purchase contracts are to be signed during 2011 subsequent to which the parties may proceed to construct the Russian and Chinese sections of the pipeline. Gas supplies through the western corridor are anticipated to commence from late 2015 with supplies of up to 30 bcm per annum. Supplies through the eastern corridor may however be commenced after 2017 with supplies of up to 38 bcm per annum.

We signed a memorandum of understanding with Kogas, a Korean gas company, regarding delivery of Russian natural gas to Korea. In 2010, we jointly explored opportunities of transportation of natural gas from the Russian Far East to Korea, and the terms of delivery are currently under negotiations. Currently, Kogas purchases LNG from the Sakhalin II project.

LNG

One of our foreign trade priorities has been the gradual implementation of our strategic plan for the production, maritime transportation and marketing of LNG. In the first stage of the development of our LNG business, we performed occasional LNG spot purchase and sale transactions and swap transactions, exchanging our pipeline gas for LNG. Beginning in September 2005, LNG has been delivered to the markets in the Asia-Pacific region, North America and Europe. In 2008, we established Gazprom Global LNG to further increase the volume of LNG trading by Gazprom Group and develop marketing.

The table below sets forth the volumes of our LNG transactions for the periods indicated.

	For the year ended December 31,		
	2010	2009	2008
	(thousand tons)		
LNG Sales	1,820	1,350	460

We increase our spot trading and further develop medium-term trading operations in the LNG market. In order to expedite entering the LNG market, we joined the Sakhalin II project. Since February 2009, our associated company Sakhalin Energy, in which we hold a 50% plus one share interest, produces and sells LNG from Sakhalin to the consumers of the Asia-Pacific region. In May 2009, Gazprom Global LNG signed agreements for the purchase and sale of LNG from Sakhalin Energy. The agreements provide for the sale of 1 million tons of LNG annually to each of the purchasers under the agreements between 2009 and 2028. As part of the transaction, our subsidiary received capacity in Sempra's Energy Costa Azul LNG import terminal in Baja California, Mexico and pipeline capacity to enable gas to be transported to Southern California, USA.

Our priority is the development of new LNG projects in Russia which are primarily focussed around the Shtokman project on the Barents Sea shelf. We have had successful negotiations with gas majors regarding LNG supplies from the Shtokmanovskoye field and the conclusion of agreements to that effect are expected by the date of the final investments decision at the end of 2011. See "—Reserves and Production—Exploration, Development and Production regions—Russian Sea Shelf—The Barents Sea shelf—Shtokmanovskoye field."

We also consider entry into LNG projects abroad in order to increase our LNG marketing business. See "—Strategy—Diversification of products and activities."

Russia

For the three months ended March 31, 2011 and 2010, our natural gas sales to Russia accounted for 58% and 63% of the volume of natural gas we sold and for 30% and 38% of our natural gas net sales revenues for the periods indicated. For the years ended December 31, 2010 and 2009 our natural gas sales to Russia accounted for approximately 56% and 57% of the volume of natural gas we sold and for 29% and 26% of our natural gas net sales revenues for the periods indicated.

Domestic market conditions. Among all domestic fuel resources, the Government currently regulates prices only for natural gas produced by us and our affiliates. The market determines prices for crude oil, coal and gas produced by independent producers. The regulated wholesale prices for gas that are currently in effect are set below those which are economically viable. As of December 31, 2010, average gas prices of one toe for an end consumer were 34% higher than power station coal and 3.3 times lower than fuel oil.

The electricity sector is the main natural gas consumer in Russia. Our natural gas supplied to electricity generation companies' accounts for up to 40% of the volume of our domestic natural gas supplies. Natural gas is also heavily used in the metallurgical, agro-chemical, construction and other sectors, as well as in households. Regulated prices are differentiated by consumers (household and industrial consumers), as well as by price bands based on the relative distance from the gas production region to the consumer. The regulated wholesale prices for households are 23% lower than those for industrial consumers. The regulated wholesale gas prices, currently in effect, are differentiated by 60 price bands based on the distance the gas travels from production fields to consumers.

The following table presents the growth rates of weighted average wholesale regulated natural gas prices for industrial and household consumers.

	2011 ⁽¹⁾	2010	2009	2008	2007
Average price increase for households (average for the year, as compared to the previous year).....	17.3%	26.5%	15.3%	25.0%	15.0%
Average price increase for industrial consumers (average for the year, as compared to the previous year).....	15.0%	26.7%	15.9%	26.0%	15.0%

Note:

(1) Expected growth.

The following table presents the weighted average wholesale regulated natural gas price for industrial and household consumers for the periods indicated.

	2011 ⁽¹⁾	2010	2009	2008	2007
Weighted annual average for industrial consumers and households (RR per mcm) ⁽¹⁾	2,746.5	2,392.0	1,893.5	1,636.0	1,301.1
Weighted annual average for industrial consumers (RR per mcm) ⁽²⁾	2,870.8	2,495.3	1,970.0	1,699.2	1,353.8
Weighted annual average for households (RR per mcm) ⁽²⁾	2,205.2	1,880.6	1,486.4	1,288.8	1,031.7

Notes:

- (1) Calculated as the combined weighted average prices to industrial and household consumers for the year indicated. Weighting is based on actual volumes delivered to each price zone for household and industrial consumers for the period from 2007 to 2010 and based on plan for 2011.
- (2) Weighting is based on actual volumes delivered to each price zone for each group of consumers separately, industrial consumers and households for the period from 2007 to 2010 and based on plan for 2011.

In order to promote market principles in the domestic gas market, the Government issued Resolution No. 333 dated May 25, 2007 "On improvement of gas prices regulation" ("Resolution No. 333"). Pursuant to Resolution No. 333, for the period from July 1, 2007 through January 1, 2011, we were allowed to sell natural gas to specific categories of customers at prices negotiated with our counterparties from a defined price range. These principles were also effective for new end use gas consumers and consumers purchasing natural gas volumes in excess of those stipulated in gas supply contracts for 2007. Pursuant to Resolution No. 333, the minimum price level of the price range was defined as the regulated wholesale gas price set by the Federal Tariff Service of the Russian Federation. The maximum price level was defined as the regulated wholesale gas price level plus 60% in 2007, 50% in 2008, 40% from January 1, 2009, 30% from July 1, 2009, 20% from January 1, 2010, and 10% from July 1, 2010 through January 1, 2011. In 2010, gas sales to these categories of customers amounted to 25.1 bcm, with an average negotiated price which was 6% higher than the respective wholesale regulated price.

Resolution No. 1205 of the Government On Improving State Regulation of Gas Prices, dated December 31, 2010, provides for a phased increase of the regulated wholesale gas prices in the transition period from 2011 through 2014 in order to achieve parity in terms of profitability with respect to supplies to the domestic market as compared to exports and also provides for the transitioning to a market pricing mechanism for all domestic gas consumers except households. During the transition period from 2011 to 2014, the regulated wholesale gas price for consumers (other than households) will be calculated on the basis of a price formula that provides for equal profitability with respect to supplies to the domestic market and exports subject to decreasing coefficients and regional differentiation. The price so calculated in 2013 and 2014 is limited to a range determined as the actual weighted average price for previous year increased pursuant to the parameters of annual changes in wholesale prices for gas approved by the Government of the Russian Federation, plus or minus three percentage points. Moreover, Resolution No. 1205 amends Resolution No. 333 whereby from January 1, 2011 the price to be determined as set out above plus a 10% margin shall be the upper limit of the admissible price range for gas volumes in excess of volumes stipulated by 2007 supply contracts.

The Economic Development Scenarios in Russia, developed by the Ministry of Economic Development provide for the following domestic weighted average wholesale price increase rates for the period from 2011 to 2013: See "Risk Factors—Risks Relating to Our Business—We are required to supply a significant portion of natural gas to customers in Russia at prices that are regulated by the Government."

	2013	2012	2011
	(Annual increase from previous year, %)		
Average regulated wholesale prices for all categories of Russian consumers (excluding households).....	15.0	15.0	15.0
Average regulated wholesale prices for household consumers	15.0	19.2	17.1

Pursuant to several resolutions of the Government, from November 2006 until December 2008, Gazprom and independent gas suppliers by way of experiment traded natural gas at unregulated prices on the electronic trading floor of Gazprom mezhregiongaz. Gazprom and its affiliates were permitted to sell up to 7.5 bcm of gas through electronic trades in 2008. In addition, Gazprom, together with its affiliates, was permitted to sell 15% more than independent producers. The 2008 trading results showed that price tracers traded on the average 38% higher than the regulated price levels.

Since January 1, 2009, electronic gas trades have been halted because the relevant resolution of the Government expired. We continue to work with the federal executive authorities regarding the approval and adoption during 2011 of a draft resolution of the Russian Federation on physical gas sales and gas derivatives trading using commodity exchange technology.

The following table presents the trading volumes on the electronic trading floor of Gazprom mezhregiongaz for the following years and by the parties indicated.

	2008	2007
	(bcm)	
Gazprom and its affiliates	3.11	4.26
Independent sellers.....	2.98	2.78
Total sales.....	6.09	7.04

Domestic sales. We sell our products domestically mainly through our wholly owned subsidiary Gazprom mezhregiongaz, which sells gas to regional gas sales companies in Russia. Regional gas sales companies contract directly with and collect payments from the end customers, including households.

Our acquisitions of controlling interests in various gas distribution companies have enabled us to capture the transportation tariffs that are payable to them in respect of the transportation services they provide. The gas distribution companies own and operate low- and medium-pressure pipelines that transport gas to end consumers. Regional gas sales companies receive a fixed price for supply and distribution services. We hold controlling interests in more than 50% of the gas distribution companies in Russia. In order to increase the efficiency of our regional gas distribution system, we currently plan to consolidate our shares in gas distribution companies under a holding company, Gazprom gazoraspredeleniye.

We sign both one year and long-term gas supply contracts with our Russian customers. In accordance with resolution of the Government No. 816 dated October 17, 2009, one-year contracts require customers to make full payment (excluding any advance deposits) for the natural gas they received in the following order: 35% of the payment shall be made on or before the eighteenth day of the month of delivery, 50% of the payment shall be made by the end of the month of delivery and the final payment shall be made by the twenty fifth day of the month immediately following the month of delivery. The contracts may contain penalty terms for late payment and customers' supplies of natural gas may be restricted and eventually stopped if non-payment continues over two or more periods. In addition, surcharges may be levied for gas supplied in excess of the contracted-for daily quotas (50% in winter and 10% in summer). On November 30, 2006, the Government permitted us, effective in 2008, to enter into contracts with our domestic customers other than household customers containing terms of up to five years. Such long-term gas supply contracts provide for the full payment of the contracted gas volume, including in cases of partial failure to take gas ("take-or-pay" term).

We also sell gas through our network of NGV-refuelling compressor stations. As of December 31, 2010, we owned a network consisting of 206 NGV-refuelling compressor stations. In 2010, we sold 300.4 mmcm of compressed natural gas through our NGV-refuelling compressor stations as compared to 295.2 mmcm in 2009 and 301.5 mmcm in 2008.

Payments for gas deliveries in Russia

Gross accounts receivable for natural gas supplied to Russian customers (excluding provision for bad debts) amounted to RR157,338 million and RR146,308 million as of March 31, 2011 and 2010, respectively, and RR148,544 million, RR90,645 million and RR71,368 million as of December 31, 2010, 2009 and 2008, respectively (including Russian VAT, but excluding late payment charges).

The FSU

In the three months ended March 31, 2011 and 2010 our gas sales to the FSU countries accounted for approximately 16% and 11% of the volume of gas we sold and for 24% and 15% of our gas net sales revenues during the same periods. In the years ended December 31, 2010 and 2009, our gas sales to the FSU countries accounted for approximately 14% and 12% of the volume of gas we sold and for 21% and 16% of our gas net sales revenues during the same periods. We supply a significant proportion of the volume of natural gas consumed in the FSU countries. Ukraine and Belarus are the largest consumers of the volumes of natural gas we supply to the FSU.

The following table sets out our natural gas sales volumes to the FSU countries for the periods indicated.

Country	For the year ended December 31,		
	2010 ^{(1),(2)}	2009 ^{(1),(2)}	2008 ^{(1),(2)}
	(bcm)		
Armenia	1.4	1.7	2.1
Azerbaijan	—	—	—
Belarus	21.6	17.6	21.1
Estonia	0.4	0.8	0.6
Georgia	0.2	0.1	0.7
Kazakhstan	3.4	3.1	9.6
Latvia	0.7	1.1	0.7
Lithuania	2.8	2.5	2.8
Moldova	3.2	3.0	2.7
Ukraine	36.5	26.8	56.2
Total⁽³⁾	70.2	56.7	96.5

Notes:

- (1) Management estimates.
- (2) Net of trading activity without supplies of natural gas.
- (3) Totals may not sum due to rounding.

Sales to the FSU countries are primarily made directly by Gazprom, though we also make sales through Gazprom Export and its subsidiaries. Currently, on average, the annual contract prices for the natural gas we supply to the FSU countries are higher than the Russian domestic prices but lower than our prices in Europe.

In December 2008, RosUkrEnergo stopped supplying re-purchased Central Asian gas to Ukraine. Since January 2009, we sell gas directly to Ukraine.

We are finalising the gradual increase of the prices for sales in the FSU countries to provide equal profitability (taking into account transportation costs) from sales in the FSU and European markets. Due to our implementation of this price policy, our average natural gas sales price to the FSU countries increased from RR1,716.1 per mcm in 2005 to RR7,039.0 per mcm in the year ended December 31, 2010, or by 310%. However, on average, our current annual contract prices for the natural gas we supply to the FSU countries are still below the level that would provide equal profitability (taking into account transportation costs) to sales in Europe and Other Countries.

We have agreed on gas price formulas to supply gas to most FSU countries which correspond to the European price level, however, several FSU countries will continue to receive discounts on prices through 2012. The formulas are based on the gas quality rating and take into account the changes in oil product price quotations in Europe.

In January 2009, Gazprom and Naftogaz entered into a gas supply contract for the period from 2009 to 2019 ending our dispute with Ukraine and pursuant to which we agreed to provide natural gas supply to Ukraine in the amount of 40.0 bcm in 2009 and 52.0 bcm per year thereafter. The price for gas is calculated quarterly using a formula that takes into account changes in price indexes on fuel and gas oil. In November 2009, we signed a supplemental agreement to the gas supply contract which provided for natural gas supply to Ukraine in the amount of 33.75 bcm in 2010 and waived penalties for low intake of natural gas by Ukraine in 2009 given difficult economic conditions caused by the global economic crisis. In April 2010, the contract was revised to provide for the increase in gas supply to Ukraine up to 36.5 bcm in 2010. It is envisaged that, during 2011, 41.6 bcm of gas would be supplied to Ukraine pursuant to the contract. The minimum quantity of gas to be either offtaken or paid for by Ukraine amounts to 40 bcm.

In March 2011, Gazprom and Beltransgaz signed a supplement to the contract for supply and transit of natural gas for the period from 2007 to 2011. The supplement clarifies the terms and conditions for transit and supply of natural gas in 2011. The volume of gas planned to be supplied in 2011 amounts to 22.5 bcm.

Debt settlement. The failure of a number of FSU customers to pay us for supplies of natural gas has resulted in substantial debts to us. Accounts receivable due from customers in the FSU countries for sales of natural gas (excluding provision for bad debts) were RR163,524 million and RR113,023 million as of March 31, 2011 and 2010, respectively, and RR150,998 million, RR142,747 million and RR133,544 million as of December 31, 2010, 2009 and 2008, respectively (including VAT but excluding charges for late payment). This included amounts due from customers in Ukraine of RR67,794 million, RR36,904 million, RR58,106 million, RR73,906 million, and RR75,153 million and, in Belarus of RR14,538 million, RR12,927 million, RR14,405 million, RR8,323 and RR7,037 million, and in Moldova of RR73,265 million, RR58,344 million, RR72,021 million, RR55,533 million and RR40,400 million as of March 31, 2011 and 2010 and December 31, 2010, 2009 and 2008, respectively. We have taken specific measures to reduce arrears in payments for natural gas owed by FSU customers, including those discussed below.

Between 2006 and 2008, Naftogaz failed to make timely payments to RosUkrEnergo for gas we supplied. Naftogaz's payments were between 1 to 4 months late in this period. As a result, RosUkrEnergo incurred indebtedness to Gazprom Group. In January 2009, in accordance with the contracts between Gazprom and Naftogaz, a part of the fees for the transit of gas through Ukraine in 2009 was paid to Naftogaz in advance. Naftogaz transferred these funds received to Gazprom and Gazprom Export as payment for receivables which were assigned by RosUkrEnergo to Gazprom. Since 2009, Naftogaz has been paying for gas supplied to Ukraine

on time. As of December 31, 2010, RosUkrEnergo had outstanding indebtedness owed to Gazprom Group of U.S.\$ 810.2 million for supplies of natural gas, which has now been fully paid.

To date, our efforts to obtain repayment of the debt and assure full payments for current gas deliveries to the Transdnestria region of Moldova, which is under separate administration, have been unsuccessful. Since the beginning of 2009, Transdnestria has not made any cash payments for the gas delivered to customers in the region. We are limited in our ability to decrease gas deliveries to the Transdnestria region because doing so may adversely affect our deliveries to Balkan countries.

In the first half of 2009, Belarus had difficulty making full payments to us for gas supplies. As of December 31, 2010, Belarus fulfilled its contractual obligations for payment of purchased gas. During the first half of 2010, we were engaged in a dispute with Beltransgaz regarding terms and payment for gas supplies, and in this connection, we suspended our supplies of natural gas to Belarus on June 21, 2010. On June 23, 2010, after Beltransgaz had repaid its debt for the period from January to April 2010, we resumed supply of natural gas to Belarus.

Cooperation with FSU countries in gas marketing

As part of our strategy to maintain our natural gas export sales while production from our mature fields declines, we have signed medium- and long-term agreements to purchase natural gas from central Asia. A significant element of our policy in central Asia is the development of the gas, oil and energy infrastructure in the region to ensure effective industrial cooperation, established during the time of the USSR. In this respect, we began to elaborate and implement a set of joint investment projects for production, processing and transportation of hydrocarbons in the central Asian region. See "—Joint Ventures and Alliances—Central Asia" and "—Transportation—International projects in gas transportation—Central Asia."

Our agreement with Uzbekneftegaz provides for cooperation in purchasing natural gas in Uzbekistan, producing gas in Uzbekistan under the terms of a production sharing agreement, conducting diagnostic assessments of trunk pipelines, and modernising gas transport capacity. The agreement provides, in particular, for long-term purchases of Uzbek gas in the amount of up to 15 bcm per year through 2012.

Our amended and restated long-term contract with GK Turkmengaz signed in December 2009 provides for our annual purchase of up to 30 bcm of Turkmen natural gas. The agreement also provides for a joint implementation of projects for the construction of the Prikaspiysky gas pipeline and the East-West trunk gas pipeline, and extraction of hydrocarbons on the Caspian Sea shelf.

We also purchase natural gas in Kazakhstan through our joint venture KazRosGaz. We process the gas at our Orenburg gas refinery and sell it in Kazakhstan and in other countries. See "—Refining—Projects in refining—Karachaganak gas processing."

We have signed two agreements which both expire in 2013. One agreement is with AK Uztransgaz and provides for the transportation of natural gas from Turkmenistan through Uzbekistan. The other agreement is with AO Intergas Central Asia and provides for the transportation of natural gas from Turkmenistan and Uzbekistan through Kazakhstan. This agreement is an important part of our plan to increase the reliability of gas supplies from the region.

In March 2008, our partners from Kazakhstan, Uzbekistan and Turkmenistan notified us of their intention to begin supplying us gas at European market prices (less transit costs) starting from 2009. The price set out in the contracts for 2009 and the future periods are based on European gas market prices.

In June 2009, we signed an agreement with the State Oil Company of Azerbaijan (SOCAR) regarding the basic terms of our gas purchases from Azerbaijan. The agreement provides for our annual purchases of not

less than 0.5 bcm gas for the period from 2010 to 2015 with a provision for increase of the gas volumes to be purchased. The amendments to the agreement that were agreed to in June and September 2010 provide for the increase of gas supplies from Azerbaijan by up to 1.0 bcm in 2010 and 2.0 bcm in 2011. In January 2011, an agreement on the possible increase in the volume of gas purchases for the year 2012 (in excess of previously agreed volumes) was reached. The purchase of Azerbaijan gas is effected based on the price formula with reference to the oil basket.

The following table sets out the volumes of gas purchased by us in the FSU countries for the periods indicated.

	For the year ended December 31,		
	2010	2009	2008
	(bcm)		
Uzbekistan	13.9	15.4	13.9
Kazakhstan	12.4	10.1	9.6
Turkmenistan	10.7	11.8	40.3
Azerbaijan	0.8		
Total	37.8	37.3	63.8

Sales of Liquid Hydrocarbons and Refined Products

This section sets forth information relating to our Production of crude oil and gas condensate segment and Refining segment with regard to our sales of liquid hydrocarbons and refined products, each as defined in our financial statements prepared in accordance with IFRS. For information relating to exploration and production of oil and gas condensate, see "Reserves and Production", for information relating to processing of oil, gas condensate and other hydrocarbons, see "Refining."

Our sale of liquid hydrocarbons and refined products in Russia is principally conducted by Gazprom and Gazprom Neft. Exports are made through Gazprom Export and Gazprom Neft Trading, a subsidiary of Gazprom Neft.

The following table sets out sales volumes of crude oil and gas condensate for the periods indicated.

	For the year ended December 31,		
	2010	2009	2008
	(million tons)		
Russia ⁽¹⁾	3.3	3.2	3.9
Europe and Other Countries	16.3	16.1	16.7
FSU countries	3.0	3.3	3.3
Total	22.6	22.6	23.9

Note:

(1) Excluding supplies under swap contracts.

The following table sets out sales volumes of refined products for the periods indicated.

	For the year ended December 31,		
	2010	2009	2008
	(million tons)		
Russia	28.6	24.4	24.5
Europe and Other Countries	19.7	16.5	16.7
FSU countries	3.8	3.3	2.4
Total	52.1	44.2	43.6

Our net sales of oil and stable gas condensate increased by 11% in 2010 compared to 2009 and amounted to RR196.1 billion. In the three month period ended March 31, 2011, our net sales of oil and stable

gas condensate increased by 29% compared to the same period in 2010 and amounted to RR57.0 billion. Our net sales of oil and gas refined products amounted to RR709.1 billion in 2010, which represents a 31% increase compared to 2009. In the three month period ended March 31, 2011, our net sales of oil and gas refined products amounted to RR214.9 billion, which is 40% more than in the same period of 2010.

In 2010 and the first half of 2011, we primarily supplied our Urals crude oil to our major export markets in north-western, southern, and central Europe. We also supplied small volumes of crude oil to China through Kazakhstan. We supplied crude oil to the FSU countries including Belarus (to the Mozyr Oil Refinery) and Kazakhstan (to the Pavlodar Oil Refinery). The prices for our supplies are based on formulas tied to price of Urals crude oil.

As we implement our own oil refining and export programmes, our oil sales in Russia (excluding supplies under swap contracts) were insignificant.

Our sales of refined products to Europe and Other Countries increased in 2009 compared to 2008 due to the consolidation of the results of NIS and Sibir Energy that compensated for the negative effects of unfavourable market conditions in 2009 and deconsolidation of Sibur Holding's results from our results.

In 2010, the refined products markets, following the recovery in the oil markets, experienced a partial recovery in demand and this trend continued in the first half of 2011.

Distribution Networks

As of December 31, 2010, we operated through a network of 1,596 gasoline stations. In 2010, 2009 and 2008, we sold 4.9 million tons, 3.4 million tons and 2.6 million tons, respectively of oil products through our gasoline station network.

In Russia, we sell liquid hydrocarbon pursuant to long-term contracts and spot deliveries to consumers at market prices. The prices for liquefied associated gases for domestic needs are regulated by the Government.

Gazprom Neft distributes its refined products through one of the largest distribution networks in Russia operated by its 19 subsidiaries. 15 distribution subsidiaries are engaged in both wholesale and retail distribution of refined products through a network of gasoline stations.

During the period from April 2009 to February 2011, Gazprom Neft acquired 100% of the shares of Sibir Energy and thus indirectly acquired control over Moscow Oil Refinery, OAO Moscow Petroleum Company and OAO Mosnefteproduct which own a chain of more than 134 gasoline stations in Moscow and the Moscow Region.

We are re-branding our gasoline stations to create a universal brand "Gazprom Neft".

The expansion of our distribution network abroad is one of our highest priorities. In 2006, Gazprom Neft acquired two Kyrgyz companies, ZAO Munai Myrza and OSOO Aliance Oil Asia. These companies own certain oil products marketing and storage assets.

In 2009, Gazprom Neft and TNK-BP completed the division of a joint venture ZAO "Slavneft-Start" owned by "NGK Slavneft". As a result of the division, Gazprom Neft established 1000 "Gazpromneft-Belnefteproduct", a subsidiary which owns 36 gasoline stations and 5 petroleum bases.

The acquisition of controlling shareholding in NIS, taking control over Sibir Energy, and the division of the assets of ZAO "Slavneft-Start" with TNK-BP expanded our gasoline station network abroad up to 649 units as of the end of 2010.

Electric and Heat Energy Generation and Sales

Our Electric and heat energy generation and sales segment sells electric and heat energy to third parties.

The following table sets forth selected financial data with regard to our Electric and heat energy generation and sales segment as defined in our financial statements prepared in accordance with IFRS.

	Electric and heat energy generation and sales				
	As of and for the three month period ended March 31,		As of and for the year ended December 31, ⁽¹⁾		As of and for the year ended December 31, ⁽²⁾
	2011	2010	2010	2009	2009
	Unaudited		Audited	Unaudited Revised	Audited
Assets, million RR.....	515,701	471,047	487,046	470,221	464,916
Share of Group's total assets, %	5%	5%	5%	5%	5%
Sales ⁽³⁾ , million RR.....	113,474	94,536	295,436	196,740	198,954
Share of Group's total sales, %.....	9%	10%	8%	6%	6%
Capital additions, million RR.....	8,556	5,583	46,239	26,139	26,139
Share of Group's total capital additions, %.....	5%	4%	5%	4%	4%

Note:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.
- (3) Excluding inter-segment and intra-segment operations.

The following table sets out electric power and heat generated by the Group for the periods indicated.

	For the year ended December 31,		
	2010	2009	2008
Electric power generated	(billion kWh)		
Russia	174.7	137.9	108.6
Europe and Other Countries.....	—	—	—
FSU countries.....	0.4	0.6	0.7
Total.....	175.1	138.5	109.3
Heat generated	(million Gcal)		
Russia	105.5	72.1	65.8
Europe and Other Countries.....	—	—	—
FSU countries.....	1.4	1.3	1.3
Total.....	106.9	73.4	67.1

The key reason for the increase in the electric and thermal energy production ratios of the Gazprom Group during 2010 was the consolidation of TGK-1 which took place in December 2009. In addition, our electricity generating subsidiaries experienced an improvement in both operating and financial performance due to an increase in demand for electric power in the regions where such companies operated, which was in turn caused by the recovery in industrial production in Russia. Generation performance growth for 2009 however is mainly explained by the consolidation of OGC-2 and OGC-6 that took place in mid-2008.

Russia

We participated in the power industry reform in Russia, which provided for a spin-off of the power generation assets of RAO UES, a former natural monopoly for electric power supply and a major producer of electric power in Russia, into TGKs, OGKs and other companies. TGKs primarily operate combined heat and power plants, which generate both electric and thermal power and are constructed in accordance with regional principles. OGKs generally operate power plants, specialising mainly in electric power generation in different regions of Russia. In 2007 and 2008, as a shareholder of RAO UES, we acquired interests in these companies. Our main assets in the electricity sector are consolidated in and managed by Gazprom energoholding.

In 2007, we acquired control over Mosenergo, the largest TGK in terms of total capacity and a key producer of electricity and heat energy in the Moscow region. Mosenergo operates in the central region of Russia, which has a high level of gasification (which results in lower cost of generation of electricity relative to regions where gas transportation costs are higher) and increasing demands for gas supply.

In the middle of 2008, we consolidated generation companies OGK-2 and OGK-6. Approximately one fourth of the electric power produced by OGK-2 and one half of the electric power produced by OGK-6 is generated from coal. In June 2011, the shareholders of OGK-2 and OGK-6 approved a merger of the two companies by exchanging shares in OGK-6 for shares in OGK-2 with an exchange ratio of 1.2141. We expect to complete the merger by October 2011 whereby all assets and liabilities of OGK-6 will be transferred to OGK-2 and OGK-6 will be subsequently dissolved.

In July 2008, we acquired a 28.7% interest in TGK-1. In December 2009, we acquired an additional interest in TGK-1, thus increasing our interest to 51.8% and obtaining control over the company. TGK-1 operates in the northwestern region of Russia where gas consumption is growing rapidly. The hydropower generation comprises about 50% of installed capacity of TGK-1. In addition, Gazprom energoholding owns interests in other companies in the Russian electricity sector that are not our core assets.

In September 2008, we signed an agreement with Inter RAO UES in relation to the construction of the second block of the Kaliningrad thermal power plant. The design capacity of the block is 450 MW. The block was commissioned in December 2010. The total investments in the power plant amounted to approximately RR20 billion (including VAT). In May 2011, we sold the second block of the Kaliningrad thermal power plant to Inter RAO UES.

In September 2008, we entered into an agreement for the construction of the Adler thermal power plant in the Krasnodarsky region. The design capacity of the block is 360 MW. The commissioning of the power plant is expected to occur in 2012.

The following table sets out electric power and heat generating capacity of the major Russian generation companies controlled by the Group as of December 31, 2010. As of the date of this Prospectus, there have been no significant changes to the information set forth in this table.

Electric power generating capacity, MW

Mosenergo	11,900
OGK-2	8,707
OGK-6	9,162
TGK-1	6,266

Heat generating capacity, Gcal/h

Mosenergo	34,852
OGK-2	1,649
OGK-6	2,704
TGK-1	14,426

The development strategy in relation to the Gazprom Group's electric power division provides for our generating capacities to exceed 44 GW by 2020. In 2010, the Gazprom Group commissioned new facilities of 676 MW within Russia. Further our subsidiary OAO Mezhtregionenergostroy commissioned facilities of 450 MW during that year.

In 2010, we finalised the approval process with the power market regulators in relation to our generating companies' commitments regarding the scope and schedules for new generating facilities being constructed under installed capacity supply contracts. The launch in 2011 of the long-term capacity market and the market liberalisation initiative will ensure returns for new power-generating units that are to be commissioned pursuant to commitments made under installed capacity supply contracts.

In July 2011, we signed the Agreement of Intent with the Renova Group to merge our respective power generating assets into Gazprom energoholding and to convert the merged entity into an open joint stock company that could subsequently be listed on a stock exchange. It is envisaged that we will receive up to 75% of the equity less one share and that the Renova Group will receive at least 25% of the equity plus one share in the proposed merged entity. The proposed merged company is expected to manage the key power generation and power distribution assets owned by both parties. The shareholders agreement proposed to be entered into by the parties, in due course, will aim to set out the final list of assets to be contributed by each party, as well as, the respective shareholdings of the parties in the merged company. The shareholders' agreement is expected to be signed by the end of the year 2011. The parties subsequently expect to prepare the necessary legal documentation regarding this proposed merger and coordinate with the Federal Antimonopoly Service in relation to securing the necessary approvals. Integrated Energy Systems ("IES"), a member of the Renova Group, holds controlling stakes and runs the following four power generation companies: TGC-5, TGC-6, TGC-9 and VoTGC with the aggregate installed capacity of approximately 17.5 GW. The power distribution business of IES covers the Urals and Volga regions and over 10 million individuals and approximately 62 thousand legal entities are among the customers of these power distribution companies. The merged company is expected to accumulate an aggregate installed capacity of approximately 53 GW which would roughly account for approximately 25% of the total installed electric power generating capacity in Russia.

FSU and Europe and Other Countries

We own a 99.5% interest in ZAO Kaunaskaya Teplofikatsionnaya Elektrostansiya ("Kaunas Heating and Electrical Station"), which produces heat and electricity in Lithuania. As of December 31, 2010, the electric power generating capacity of the station and its heat generating capacity amounted to 170 MW and 894 Gcalh, respectively. Due to the existence of outstanding differences between the Group and the Government of the Republic of Lithuania in relation to the pricing for thermal power, the potential withdrawal of the Group from the Kaunas Heat and Power Plant CJSC is currently under review.

We have entered into an agreement with the Armenian government, pursuant to which ArmRosGazprom, our subsidiary in which we hold an 80% interest, is implementing the project of constructing Razdan-5. Razdan-5 is the fifth energy unit of the Razdan thermal power plant, a major thermal power plant in Armenia with designed capacity of 1,100 MW. Upon completion of the construction, a gas turbine will be put into operation at Razdan-5 which will enable the supply of electricity to neighbouring countries. The commissioning of the fifth power-generating unit of the Razdan Thermal Power Plant is expected during the second half of 2011.

We carry out electric power trade operations at European trading platforms and supply electric power to end consumers. In 2010 the total volume of such trading operations amounted to 34.6 billion kWh and the supplies to end consumers amounted to 0.4 billion kWh.

In accordance with our strategy, we intend to develop an electro-energy business in the markets of Germany, Italy and the United Kingdom. We are considering different projects for obtaining and/or constructing electricity power stations powered by natural gas in these countries. In July 2011, we signed a memorandum of understanding with RWE, which provides for a strategic partnership in the sphere of electricity production in Europe.

All Other Segments

Because of the broad geographic range of our core business, the remoteness of our fields and the relatively undeveloped infrastructure in the regions in which we produce natural gas, we operate our own communications operations as well as various other activities, such as food processing and procurement and transportation (including auto transport and aviation), to support the activities of the employees who work in the

exploration, production, and transportation of our gas. We also have interests in various companies that conduct other activities supporting our main business.

Financial highlights

The following table sets forth selected financial data with regard to our All other segments segment which combines operating segments that are not separately disclosed in our financial statements prepared in accordance with IFRS.

	All other segments				
	As of and for the three month period ended March 31,		As of and for the year ended December 31, ⁽¹⁾		As of and for the year ended December 31, ⁽²⁾
	2011	2010	2010	2009	2009
	Unaudited		Audited	Unaudited Revised	Audited
Assets, million RR.....	590,048	526,951	643,132	546,336	546,008
Share of Group's total assets, %.....	6%	6%	7%	6%	6%
Sales ⁽³⁾ , million RR.....	47,295	35,528	174,962	146,702	146,915
Share of Group's total sales, %.....	4%	4%	5%	5%	5%
Capital additions, million RR.....	3,782	3,229	22,153	20,959	20,959
Share of Group's total capital additions, %.....	2%	2%	2%	3%	3%

Note:

- (1) As extracted from our consolidated financial statements as of and for the year ended December 31, 2010, prepared in accordance with IFRS. The Unaudited Revised 2009 Financial Information though extracted from the above consolidated financial statements are unaudited and the audit report, issued by ZAO PricewaterhouseCoopers, as contained in the above financial statements does not extend to the Unaudited Revised 2009 Financial Information.
- (2) As extracted from our consolidated financial statements as of and for the year ended December 31, 2009, prepared in accordance with IFRS.
- (3) Excluding inter-segment and intra-segment operations.

Gazprombank

Gazprombank was our consolidated subsidiary until June 24, 2008. As a result of the reduction in the number of our representatives on Gazprombank's board of directors, among other reasons, we lost our ability to control the financial and operating policies of Gazprombank and its subsidiaries, including Sibur Holding and Gazprom-Media Group and, therefore, ceased to report on companies controlled by Gazprombank Group as our subsidiaries. Because the Group continues to exercise significant control over Gazprombank Group, the latter is included in our financial statements as associated company.

Gazprombank services a majority of our banking needs (except for borrowing). Gazprombank's services comprise the entire range of commercial, investment and retail banking services.

Non-core businesses

In addition to the activities described above, we have investments in various other businesses that are not related to our core operations. Such investments mainly represent equity holdings which we received in the course of privatisation (e.g., interests in agricultural, civil construction and medical care enterprises) or acquired either through debt for equity swaps (e.g., stakes in regional utility companies) or directly for strategic and other considerations.

Insurance

Exploration, production, refining and transportation of natural gas, gas condensate and crude oil carries numerous operational risks.

The Group maintains insurance coverage to cover the substantial operations of the Group and to minimise the volume of financial resources directed to the mitigation of consequences resulting from natural and technogenic accidents and other undesired events.

The Group maintains insurance policies covering the following: (i) fixed assets, including pipelines, compressor and gas distribution stations, gas processing plants, wells and field equipment against "fire-related and allied risks" and "risks of car and equipment breakage" with a per incident coverage limit of U.S.\$116 million (U.S.\$150 million with respect to gas processing plants); (ii) business risks (including business interruption risks as a result of property damage to gas processing plants) with a per incident coverage limit of U.S.\$50 million; (iii) builder's risks with respect to new construction projects or capital and tenant improvements projects; (iv) material and technical resources used for the construction, reconstruction and modernisation of major production facilities during a transportation period; and (v) liability insurance for members of Gazprom's Management Board and Board of Directors with respect to potential unintentional erroneous actions while carrying out management activity, with a total indemnity cover of US \$100 million.

In accordance with legislation relating to the maintenance of obligatory liability insurance, the Group also maintains insurance policies covering: (i) liabilities arising out of legal obligations to pay damages to third parties and environmental damages resulting from incidents on production facilities of the Group and (ii) civil liabilities of automobile owners.

In addition, the employees of the Group and their family members are insured under our voluntary medical insurance programmes and our accident and illness insurance programmes.

Gazprom Neft maintains insurance policies covering: (i) the production fixed assets of its production companies with a coverage limit of U.S.\$60.0 million per incident including coverage limit of U.S.\$25.0 million against risk of terrorism and "risks of car and equipment breakage" of U.S.\$5.0 million; (ii) the production fixed assets of refining companies with a per incident coverage limit up to U.S.\$1,200 million (depending on the company) including coverage limit of U.S.\$50.0 million against risk of terrorism; (iii) business risks (revenue losses and necessary fixed costs caused by an interruption of operation) combined with property damage with a per incident coverage limit of up to U.S.\$1,200 million for oil processing subsidiaries; (iv) export products, such as oil, refined and petrochemical products, with insurance coverage of up to U.S.\$100 million for each shipment; (v) risks relating to construction, reconstruction and modernisation of fixed assets (of more than U.S.\$20 million); (vi) certain risks required by applicable law to be insured against, including liabilities of enterprises exploiting dangerous production facilities and civil liabilities of automobile owners; and (vii) medical insurance for employees and partial accident insurance.

Unless otherwise provided by the terms and conditions of a contract or an agreement, Gazprom Neft does not maintain insurance covering third-party civil liability risks.

We obtain insurance mainly through OAO Sogaz ("Sogaz") insurance company, one of the leaders in the Russian insurance market. Pursuant to the requirements of the Federal law "On the Protection of Competition", Sogaz was chosen as the insurer of the Group following the results of an open competitive tender. The Group's risks are reinsured by Sogaz on the international insurance market with insurance and reinsurance companies with high ratings of reliability.

Property, Plant and Equipment

Our property, plant and equipment are classified under the following categories:

Pipelines

We own and operate as part of the UGSS, the GTS, the world's largest high-pressure trunk pipeline gas transportation system. We estimate that as of December 31, 2010, the total length of the system was approximately 162 thousand km (not including pipelines for the transportation of gas condensate) and included 215 compressor stations on the pipelines with total capacity of 42,100 MW and 25 UGSFs with a market-grade

gas storage capacity of approximately 65.4 bcm. Further, we are the leading gas distribution company in Russia and our gas distribution assets are consolidated in our subsidiary Gazprom gazoraspredeleniye. As of December 31, 2010, our controlled companies operated approximately 479 thousand km of gas distribution pipelines facilitating supply of more than 173.4 bcm of gas to end-users.

Since 2005, we have been implementing a gasification programme for Russian regions, which will provide for the extension of our distribution pipeline network particularly to areas in Russia where natural gas is currently unavailable. We allocated RR25.6 billion in 2010 towards the implementation of this programme and constructed 156 gasification facilities with a total length of 2.1 thousand km to enable gas supplies to 278 settlements in 67 regions of Russia. For further information on our gas transportation projects in Russia, see "— Gas Transportation Projects in Russia".

Internationally, the Yamal-Europe export pipeline has an annual projected capacity of approximately 33 bcm and passes through Belarus, Poland and Germany and connects the UGSS in Russia with the YAGAL pipeline in Germany. The Blue Stream pipeline, which has an annual projected capacity of approximately 16 bcm, supplies gas to Turkey, bypassing transit countries. We, together with Eni, own the offshore section of the pipeline which runs under the Black Sea and is approximately 390 km long. We also own a 10% interest in Interconnector (UK) Limited, the owner and operator of an offshore gas pipeline connecting Belgium and the United Kingdom. We currently rent the capacity in the Interconnector pipeline on a long-term basis in the annual amount of 2 bcm of natural gas from the United Kingdom to continental Europe and approximately 6 bcm of natural gas from continental Europe to the United Kingdom. In addition, we have constructed and expect to commission in 2011 the first line of the Nord Stream pipeline, a conceptually new export route for Russian gas to Europe bypassing transit countries under the Baltic sea. We expect to commission the second line in 2012 which will bring the project to its design capacity of approximately 55 bcm per annum. For further information on our international projects see "— International projects in gas transportation".

Wells

We are focusing our exploration and development activities in gas and oil fields in western Siberia and the fields in close proximity to our large developed fields in western Siberia. In order to reach the long-term projected levels of gas production, we intend to develop new strategic fields in the Yamal Peninsula in western Siberia, the Russian sea shelf, eastern Siberia and the Far East. In addition, we are participating in exploration and production projects in the FSU and Europe and Other Countries (in Vietnam, India, Libya, Algeria, Bolivia, Venezuela, Iraq, Equatorial Guinea and in Central Asian countries). This is our main region for the production of natural gas, gas condensate and crude oil. It is characterised by severe weather conditions. Over 70% of our proved hydrocarbon reserves and over 90% of our hydrocarbon production are concentrated in this region. Our wholly owned production subsidiaries OOO Gazprom Dobycha Nadym, OOO Gazprom Dobycha Urengoy, OOO Gazprom Dobycha Yamburg, OOO Gazprom Dobycha Noyabrsk, and OOO Gazprom Transgaz Yugorsk operate in this region, as does Purgaz, of which we own 51%, and Severneftegazprom, of which we own 50% plus six voting shares which is equal to a 40.0004% interest in its share capital. Our major producing gas fields, consisting of the Yamburgskoye, Medvezhye, Urengoykoye and Zapolyarnoye gas fields are located in this area. In addition, most of Gazprom Neft's oil reserves and production capacities are located in western Siberia. Gazprom Neft's most significant fields located in western Siberia are the Sugmutskiye, Priobskoye, Vyngapurovskoye, Sporyshevskoye and Sutorminskoye fields. As of December 31, 2010, we had a total of 120 production fields in Russia, 6,806 gas and 5,941 oil production wells in operation as compared to 121 production fields and 6,775 gas and 5,663 oil production well in operation as of December 31, 2009. For information on our completed exploration wells, constructed production wells, gas, as well as, oil production wells, see "Appendix A—Certain Exploration and Production Information of the Gazprom Group".

Machinery and Equipment

As of December 31, 2010, we had 176 comprehensive and preliminary gas treatment plants at our production sites with a total design capacity of 1,001.2 bcm and 48 booster compressor stations with a total design capacity of 4,572.1 MW as compared to 174 comprehensive and preliminary gas treatment plants with a total design capacity of 994.5 bcm and 47 booster compressor stations with a total design capacity of 4,508.1 MW as of December 31, 2009, respectively. For further information on our production assets see "—Reserves and Production". As of December 31, 2010, we had 215 linear compressor stations facilitating the operation of our gas transportation pipelines with an aggregate design capacity of 42.1 MW as compared to 215 linear compressor stations with an aggregate design capacity of 42.0 MW as of December 31, 2009, respectively. In

addition, we operate 25 UGSFs with a total capacity of 65.4 bcm in Russia. For further information on our transportation assets see "—Transport". In refining, we operate gas processing, oil refining and petrochemical plants, including Astrakhan gas processing plant (GPP), Orenburg GPP, Omsk oil refinery, Moscow oil refinery, Gazprom neftekhim Salavat and other. As of December 31, 2010, our total annual processing and refining capacity was 52.5 bcm of natural gas and 75.4 million tons of unstable gas condensate and crude oil. For further information on our transportation assets see "—Refining". Our main assets in the electricity sector are consolidated in and managed by Gazprom energoholding. Our aggregate electric power generating capacity amounted to 36,205 MW and heat generating capacity amounted to 54,525 Gcalh as of December 31, 2010. For further information on the capacities of Gazprom energoholding see "—Electric and heat energy generation and sales—Russia".

Buildings and Roads

Our main fields of production and important prospective fields are located in remote northern regions of Russia with little or no infrastructure facilities at all. In our normal course of field development process we construct roads and other supporting facilities. For instance, we have constructed the Obskaya-Bovanenkovo railway to facilitate the development of the Bovanenkovskoye field and other fields in the Yamal peninsula.

Licences

None of the licences for our major natural gas fields, except for the license in relation to the Komsomolskoye field, expires prior to December 31, 2012 (see Appendix A, "Certain Exploration and Production Information of the Gazprom Group – Licences"). A subsoil user has the right to request an extension of the term of the licence in order to complete the exploration, assessment and development of the natural resources until the end of a field's exploitation period if such user complies with the terms and conditions of the licence. The Komsomolskoye gas field is one of the key fields in Purovsky region where our subsidiary OOO Gazprom dobycha Noyabrsk operates. We estimate that gas reserves of the Komsomolskoye gas field represented approximately 1% and 1% of our total ABC1 gas reserves and Proved and Probable gas reserves, respectively, and the annual gas production from the field represented less than 5% of our total annual gas production as of and for the year ended December 31, 2010. The license for the field expires in 2012. We believe that the extension of this license will be granted to us and the risk of a non-extension is remote. OOO Gazprom dobycha Noyabrsk has prepared the formal renewal application, which will be filed with the Administration for subsoil use of the Yamal-Nenets autonomous area (Yamalnedra) by the end of 2011.

We believe that we are in material compliance with our licence agreements, and that we will be entitled to extend them to the full economic lives of the associated fields upon the expiration of their primary terms. Currently, there have been no suspensions of production as a result of decisions by the relevant federal and regional authorities. As of December 31, 2010, we held geological survey, exploration and production licenses for an aggregate area of 139.9 thousand square kilometres, exploration and production license for an aggregate area of 106.1 thousand square kilometres and exploration licenses for an aggregate area of 53.7 thousand square kilometres. See Appendix A, "Certain Exploration and Production Information of the Gazprom Group—Licences."

Social Assets

Social assets (such as rest houses, housing, schools and medical facilities) had a net book value of RR54,972 million and RR51,459 million as of December 31, 2010 and 2009. Included within social assets are those vested with the Group at the time of privatisation with a net book value of RR 1,354 million and RR 2,265 million as of December 31, 2010 and 2009, respectively. The Group does not have ownership rights over these social assets, but records them on its balance sheet until these assets are returned to a governmental authority because the Group controls the benefits which are expected to flow from the use of the assets and bears all associated operational and custody risks.

For further details in relation to our plant, property and equipment see Note 12 to our audited consolidated financial statements as at and for the year ended December 3, 2010 on page F-58.

Competition

The oil and gas industry is currently subject to several important influences that impact the industry's competitive landscape. These include the following:

Consolidation. In the past few years, the strategic and competitive landscapes of the oil and gas markets have been transformed by mergers and acquisitions, driven mainly by aspirations for greater profits and intensified competition to capture the growing potential of new, attractive business opportunities.

Technological advances. Technological innovations in the oil and gas industry have improved the efficiency in finding and developing hydrocarbon resources. Active and effective application of advanced technology has helped to improve geological exploration success rates, to increase field life and recovery rates from existing fields and to reduce full project cycle costs. In general, there is comparable access to technology across the industry, and to achieve our strategic and financial goals, we seek to compete by applying available technology to complex projects.

Environmental and social concerns. Oil and gas companies worldwide are also facing increasing demands to conduct their operations in a manner consistent with environmental protection and social goals. Investors, customers and governments are more actively following companies' performance with respect to environmental responsibility, human rights and the development of alternative and renewable fuel resources. As a result, we expect competition to intensify in the markets we serve.

Europe

The table below shows the proportion of European natural gas consumption attributable to each supplier of natural gas to Europe in 2010:

Country	% of European natural gas consumption in 2010
Russia (Gazprom Group)	23
Norway	17
The Netherlands	10
Algeria	9
United Kingdom	3
Other suppliers	16

Source: "2010 Natural Gas Year Review. CEDIGAZ' First Estimates (April 2011)".

Natural gas supplies to Europe have outpaced demand in the past several years, and, according to specialists from the International Energy Agency, this trend will continue for several years. As a result, we expect our natural gas export volumes to Europe to be close to the minimum amounts defined in our export contracts over this period. Over the long term, however, production in European countries (Norway excepted) will continue to decline due to the depletion of explored natural gas reserves in the region and imports from Russia and Algeria, together with Norway's production, are likely to increase in importance as a proportion of consumption.

European gas markets have been undergoing significant restructuring in the recent years. In particular, the Gas Directive seeks to deregulate and liberalise the EU gas market by introducing greater competition into the market, facilitating the growth of the short-term natural gas market and reducing gas prices for the end-user. Although we believe that the majority of natural gas imported into Europe is likely to continue to be supplied under long-term export contracts, in response to the changes in the European market, we have been increasingly involved in short-term gas transactions, including those on trading boards. In addition, we have entered into a number of marketing joint ventures, including joint ventures in Austria, Finland, Germany, Hungary and Italy.

Russia and the FSU

In Russia, we face competition from other crude oil and natural gas suppliers, in particular from independent suppliers in Russia. In the FSU, we face competition from independent suppliers in Russia and natural gas producing companies in Turkmenistan, Kazakhstan and Uzbekistan. Independent Russian suppliers have non-discriminatory access to existing UGSS capacity in Russia. The independent suppliers (the largest of which include the largest of which include Novatek, Itera Holding and TNK-BP Holding) have historically been, and continue to be, our competitors. However, the competitive position of alternative suppliers is limited by the

relatively small size of their reserves base and production volumes, the relatively high costs of production and their dependence on access to our transportation network.

Research and Development

We have pursued a policy of investing in research and development in a number of scientific and technical areas. In general, our research and development focuses on:

- economically efficient ways to develop fields in prospective production regions such as the Obiskaya and Tazovskaya Bays, the Yamal Peninsula, the Barents Shelf and the Kara Sea, eastern Siberia and the Russian Far East that are characterised by difficult climatic and geological conditions;
- maintaining production from existing fields with declining production;
- creating technology for the effective development of small natural gas fields and non-traditional resources, for example, methane from coal fields;
- creating technology to increase the efficiency of the development of fields rich in corrosive compounds and other additive components in hydrocarbon reserves;
- creating technology for the production, transportation and utilisation of low-pressure natural gas reserves that remain in the earth during the final stages of gas field development;
- developing technology for the production and transportation of liquefied and compressed natural gas;
- developing a diagnostic system, technical funds and a new generation of technology and equipment for maintaining the dependability and effectiveness of the UGSS; and
- creating energy-saving technology and equipment, and developing a comprehensive energy saving scientific-technical programme.

For the year ended December 31, 2010, the costs in relation to innovative research and development that were financed by the Gazprom Group, amounted to RR7 billion (compared to RR7.4 billion and RR4.9 billion for the years ended December 31, 2009 and 2008, respectively).

Health, Safety and Environment

The Gazprom Group's businesses primarily involve the intensive use of natural resources. Therefore, our operations in Russia are subject to environmental, sanitation-and-epidemiological and industrial safety laws and regulations. These laws govern, among other things, regulations on the composition of emissions into the atmosphere, wastewater discharges and discharges to the sea, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination, pollution of the geological environment, conservation of biodiversity and human health and industrial safety. We believe that our business is in compliance with the requirements of Russian and international laws and regulations. Although because we are a production company, environmental liability risks are inherent in our operations. See "Risk Factors—Risks Relating to Our Business—As an energy company we may incur material costs to comply with, or as a result of, environmental, health and safety laws and regulations" and "Overview of the Russian Gas Industry, Classification of Reserves and Certain Applicable Regulatory Matters—Russian Regulation—Environmental requirements."

We have developed and continue to improve a system for monitoring harmful emissions, water contamination, and the quality of air, water and soil in the Russian regions in which the UGSS infrastructure is located. In a number of regions, this system is integrated with regional ecological monitoring systems. We conduct inspections of our subsidiaries in accordance with International Standard ISO 14000. Currently, our

operations have not caused any serious accident or malfunction that has resulted in significant damage to the environment.

Russian environmental legislation establishes a "pay-to-pollute" regime. In accordance with this regime, we make statutory payments to state authorities for environmental pollution. Further, we incur operating costs related to various environmental protection measures and the maintenance and upkeep of relevant property, plant and equipment. In 2010, there were no material violations of Russian environmental laws by Gazprom Group companies as per the results of various state audits that were conducted and the amount of fines imposed on us in connection with the violation of environmental laws in 2010 was insignificant.

The table below shows environmental costs of Gazprom Group for the periods indicated:

	For year ended December 31,		
	2010	2009	2008
	(RR million)		
	Audited		
Current expenditures	10,289.8	10,376.5	17,162.3
Expenditures on refurbishment of fixed assets related to environmental protection	1,243.2	962.7	1,428.8
Payment for environmental pollution	1,234.4	1,218.4	2,678.8
Capital expenditures related to environmental protection and rational use of natural resources	7,744.4	6,323.6	3,493.7
Total	20,511.8	18,881.2	24,763.6

Inspections of field development facilities in the Russian Federation, including Gazprom Group facilities, carried out recently by the state environmental authorities have not identified any significant environmental violations with respect to Gazprom. Issues discovered in 2008 in connection with the Sakhalin II project were resolved and the project's environmental action plan was completed. To date, no substantial environmental fines or other penalties have been levied with respect to the project.

We have made provisions in our consolidated financial statements prepared in accordance with IFRS for such environmental liabilities where it was probable that an obligation exists and the amount could be reasonably estimated. Such provisions have been made in accordance with what we believe is a reasonable and prudent policy that takes into account payments made in prior years, among other factors. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. We periodically evaluate our obligations under environmental regulations. As such obligations are determined, they are recognised immediately. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation cannot be reliably estimated, but could be material. In the current enforcement climate under existing legislation, our management believes that we have no significant liabilities for environmental damage, other than amounts that have been accrued in the consolidated financial statements.

Litigation and Investigations

Except as disclosed below, neither Gazprom nor any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Gazprom is aware) during the twelve months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Gazprom Group.

In December 2010, RWE Transgas filed a lawsuit in the Court of Arbitration at the ICC in Paris (the venue of the proceedings is in Vienna, Austria) against OOO Gazprom Export, demanding a review of long-term contract prices. The matter is currently pending before the Court of Arbitration and negotiations with RWE Transgas on the contract prices are in progress.

In July 2011, the company E. ON Ruhrgas AG filed a lawsuit in an international arbitration tribunal (with the venue of the proceedings being in Stockholm, Sweden) against OOO Gazprom Export demanding a review of long-term contracts prices. The consideration of the case has not been assigned yet. The composition of arbitrators is currently being formed. Negotiations with E. ON Ruhrgas A.G. on the contract prices are in progress.

It is currently not possible for us to quantify the potential liability in relation to the above two claims.

The background to the above two claims is as follows. We sell a substantial portion of our natural gas to customers in Europe pursuant to long-term supply contracts, with gas prices linked to international prices for oil products. The excessive supply of natural gas in the European market during 2010 drove spot prices for natural gas down, and resulted in an unprecedented gap between the spot price and the prices determined under our long-term contracts. In 2010, following a mechanism approved by Gazprom's Board of Directors, we took certain actions to raise the competitiveness of the natural gas that is supplied to Europe under our long-term contracts. In order to prevent a significant deviation of our prices of gas from those offered by our competitors, our long-term contracts underwent a step-by-step adaptation, including the introduction of a limited spot component regarding pricing. While the fundamental provisions of the contracts defining the balance of interests between the buyer and the seller remained unchanged, the two claims above relate to disputes that have arisen with the customers named in relation to prices of natural gas under such long-term contracts.

Employees

For the years ended December 31, 2010, 2009 and 2008, we had a weighted average of approximately 393,000, 386,000 and 456,000 employees, respectively. The decrease in 2009 was mainly due to the deconsolidation of Gazprombank and Sibur Holding in 2008. See "All other segments—Gazprombank". Gazprom and its major subsidiaries involved in gas production, transportation and storage, collectively employed a weighted average of approximately 236,500 employees for the year ended December 31, 2010. Further, Gazprom Neft, which acts as the vehicle for the development of the Gazprom Group's oil business, employed a weighted average of approximately 61,000 employees and Gazprom energoholding, which owns and manages the Gazprom Group's generating assets related to the electricity business, employed a weighted average of approximately 27,400 employees for the year ended December 31, 2010, respectively.

We have a trade union, the Gazprom Inter-Regional Trade Union Organisation of Oil, Gas and Construction of the Russian Federation, to which more than 335 thousand of the employees belonged as of December 31, 2010. We have never experienced any strikes, work stoppages, labour disputes or actions that have affected the operation of our business and we consider our relationship with our employees to be good. Our current corporate collective agreement with the union began in 2010 and terminates during 2012. Our obligations with respect to employee health and safety procedures set out in agreement did not change significantly. We have developed and operate a unified labour protection and industrial safety management system. The union monitors our compliance with the terms of the collective agreement.

We operate a defined benefit plan which covers the majority of our employees. The benefits provided by this plan include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and certain post-retirement benefits provided to our employees at their retirement date.

We apply material incentive plans to motivate our employees, in particular, payment of year-end bonuses, bonuses for carrying out work being of particular importance to Gazprom, as well as bonuses for field discovery, for putting production facilities and completed facilities into operation, for supply of gas for export, and for introducing new technology, and other bonuses in accordance with internal company regulations.

To encourage our managers to contribute to our success and increased capital efficiency, we also use additional motivation systems. The annual bonus system takes into account the achievement of corporate and individual key performance indicators and the programme for rewarding shares as a bonus is aimed at ensuring long-term motivation of key management staff and depends upon an increase in OAO Gazprom's shareholder value.

Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by a member of the Group within the two years immediately preceding the date of this Prospectus and are material, or have been entered into at any time by any member of the Group and contain provisions

under which any member of the Group has an obligation or entitlement which is material to the Group as at the date of this Prospectus.

Agreements in relation to acquisitions and disposals

In May 2007, we entered into an agreement with the Republic of Belarus to acquire 50% of Beltransgaz for U.S.\$2.5 billion pursuant to several payments and in February 2010, we made a final payment of U.S.\$625 million for a 12.5% interest in Beltransgaz thus increasing our interest in the company to 50%.

In July 2008, we acquired a 28.7% interest in TGK-1 which was prepaid for in February 2008 in the amount of RR39,219 million. As of December 31, 2009, we completed a series of transactions and obtained a controlling interest in TGK-1. Our controlling interest of 51.8% has been accumulated through the acquisition in November 2009 of OOO Gazprom Investproekt (formerly—OOO Russian Energy Projects) which owned a 19.5% interest of TGK-1 and the acquisition of additional 3.6% interest in TGK-1 in the fourth quarter 2009. The total purchase consideration primarily includes the cost of shares acquired in the fourth quarter of 2009 in the amount of RR28.3 billion and the fair value of the equity investment of RR33.2 billion.

In July 2008, as a result of the restructuring of RAO UES, we exchanged our shares in RAO UES for interests in certain companies, including an additional 44.4% interest in OGK-2 and an additional 42.9% interest in OGK-6. As a result we obtained control over OGK-2 and OGK-6. In June 2011, the shareholders of OGK-2 and OGK-6 approved a merger of the two companies by exchanging shares in OGK-6 for shares in OGK-2 with an exchange ratio of 1.2141. We expect to complete the merger by October 2011 whereby all assets and liabilities of OGK-6 will be transferred to OGK-2 and OGK-6 will be subsequently dissolved.

In the fourth quarter of 2008, we acquired a 47.6% interest in OAO Daltransgaz, a Russian gas transportation company, for RR7,408 million paid in cash. In December 2008, we acquired an additional 25% interest plus one ordinary share for RR2,604 million paid in cash.

In October 2008, ZAO Gazenergoprombank, our banking subsidiary, acquired a 100% interest in OAO Sobinbank, a Russian bank, for a de minimis amount. As of December 31, 2008, the total assets of OAO Sobinbank, calculated in accordance with Russian accounting rules, were RR58 billion. In March 2010, the respective Boards of Directors of ZAO Gazenergoprombank, our banking subsidiary, and OAO AB Rossiya, a bank not related to us, approved a reorganisation in the form of a merger of ZAO Gazenergoprombank with OAO AB Rossiya. In April 2010, shareholders of both banks approved the reorganisation. According to the merger agreement, all assets and liabilities of ZAO Gazenergoprombank were transferred to OAO AB Rossiya. In exchange for the controlling interest in ZAO Gazenergoprombank, we received a non-controlling interest in OAO AB Rossiya after completion of procedures required by the CBR. According to the terms of the merger agreement we lost the ability to control the financial and operating policies of ZAO Gazenergoprombank on April 30, 2010 and received non-controlling interest in OAO AB Rossiya after completion of procedures required by the CBR. As a result, ZAO Gazenergoprombank and its subsidiaries were deconsolidated from the financial statements of the Group as of June 30, 2010 and were recognised at a fair value of RR8,514 million.

In December 2008, we acquired 50% plus one ordinary share in OAO Gazprom neftekhim Salavat (formerly OAO Salavatnefteorgsintez), a leading Russian oil refining and petrochemical company, for RR20,959 million. We account for Gazprom neftekhim Salavat as our associated undertaking because its charter documents provide us with significant influence rather than control over the company. On February 3, 2009, we acquired a 51% interest in NIS for RR18.5 billion (Euro 400 million) including two refineries in Panchevo and Novy-Sad with total capacity of 7.3 million tons of oil per year. Under the purchase agreement we undertook to invest 547 million euro in the reconstruction and modernisation of NIS' refinery facilities by 2012. In March 2011, the Group, under the terms of a mandatory offer, acquired from the shareholders of the Serbian company NIS an equity stake constituting 5.15% of its charter capital. As a result, the Group's interest amounts to 56.15% of the company's charter capital.

In April 2009 the Group purchased an additional 20% interest in Gazprom Neft for U.S.\$4.1 billion (approximately RR138 billion) from ENI S.p.A. As a result of this transaction, the Group has increased its

interest in Gazprom Neft to 95.68% which allowed us to begin consolidating our entire oil business within one subsidiary.

Between April 2009 and February 2011, our subsidiary Gazprom Neft acquired an interest of 100% in Sibir Energy. The total cost of the acquisition amounted to U.S.\$3.2 billion. We have consolidated Sibir Energy as our subsidiary starting from June 23, 2009. As a result of the acquisition of Sibir Energy, Gazprom Neft also obtained control over Moscow Oil Refinery, having increased its effective share in Moscow Oil Refinery to 77.72%. Acquisition of Sibir Energy also resulted in the acquisition of a 50% interest in Salym Petroleum Development N.V. (a joint venture with Royal Dutch Shell).

In September 2009 we acquired a 51% interest in OOO SeverEnergiya. The purchase consideration was U.S.\$1.6 billion (approximately RR47 billion). We had paid the acquisition in full by March 31, 2010. In late 2010, as a result of the sale of our 51% in SeverEnergiya to OOO Yamal Razvitie, a joint venture between Gazprom Neft and OAO Novatek, the Group's share in SeverEnergiya was reduced to 25.5%.

In December 2010 the Group sold a portion of their associated undertaking (total carrying value of RR 84,978 million as of the date sold) representing a 9.4% interest in OAO Novatek to a party unrelated to the Group for RR 57,462 million paid in cash. As a result of this transaction the Group has ceased to exercise significant influence over the business activities of OAO Novatek.

Asset swap agreements

During June 2009, we entered into an agreement with E.ON Ruhrgas to swap 25% less three ordinary and three preference shares without voting rights of Severneftegazprom and a preference share in ZAO Gazprom YRGM Development. In October 2009 we closed the transaction with E.ON Ruhrgas. In exchange we received E.ON Ruhrgas' share in ZAO Gerosgaz, which led to an increase in OAO Gazprom's treasury shares of 2.9%.

Finance documents and guarantees

In April 2011, the Group signed an agreement to obtain a long-term unsecured syndicated loan facility from a consortium of banks for an amount of U.S.\$600 million at an interest rate of LIBOR plus 1.5% due in 2016. ZAO Mizuho Corporate Bank (Moscow) was appointed as the agent bank. Further, in May 2011, the Group obtained project finance for the development of the Yuzhno-Russkoye oil and gas field from a consortium of foreign banks and OAO Gazprombank for an amount of RR5,993, U.S.\$657 million and euro 474 million at an interest rate of 11.4%, LIBOR plus 2.35% and EURIBOR plus 2.35%, respectively, due in 2018. UniCredit Bank AG was appointed as the agent bank.

The amount of outstanding guarantees provided to third parties decreased by RR46,382 million to RR194,995 million between December 31, 2010 and March 31, 2011 primarily as a result of the decrease in outstanding amounts of existing guarantees issued on behalf of OOO Severny Europeysky Trubny Proekt, OOO Torgovy Dom Truboprovod, SEIC and BSPC of RR27,227 million, RR8,305 million, RR6,264 million and RR3,512 million, respectively.

The maximum exposure to credit risk in relation to financial guarantees was RR 241,377 million and RR 188,286 million as of 31 December 2010 and 2009, respectively. The increase was mainly due to guaranties provided to Societe Generale on behalf of Nord Stream AG under the credit facility for financing of Nord Stream gas pipeline Phase 1 construction completion (RR50,005 million (euro 1,240 million) as of December 31, 2010) and to OAO Gazprombank on behalf of OOO Severny Europeysky Trubny Proekt as a security of credit facility for payments settlement with suppliers of pipes supplied to subsidiaries of OAO Gazprom (RR 27,227 million as of December 31, 2010). The amount of outstanding guarantees provided to third parties decreased by RR360 million to RR86,968 million between December 31, 2008 and December 31, 2009 primarily as a result of the decrease in outstanding amounts of existing guarantees issued on behalf of BSPC, DSL Assets International Limited and United Energy Investments Limited of RR5,775 million, RR888 million and RR887 million, respectively. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. This decrease was partially offset by the provision of a guarantee to Gazprombank on behalf of Stroygazconsulting as security of a credit facility for the construction supply of the Bovanenkovskoye and Yamburgskoye fields and Bovanenkovo-Ukhta gas trunk-line system. As of December 31, 2009 the above guarantee amounted to RR8,841 million.

Outstanding guarantees provided to third parties decreased by RR6,912 million to RR87,328 million between December 31, 2007 and December 31, 2008, mainly due to the deconsolidation of Gazprombank, which led to us ceasing to recognise guarantees provided by Gazprombank. In 2006, we provided guarantees to Asset Repackaging Trust Five B.V. (registered in the Netherlands) on behalf of the five companies (Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited) registered in Ireland, with respect to the loan made by them to SGT EuRoPol GAZ S.A. These guarantees are now accounted for as external after the deconsolidation of Gazprombank, the guarantor of the loan. The guarantees amounted to RR18,223 million (U.S.\$620 million) as of December 31, 2008. In April 2008, we provided a guarantee to Credit Suisse International and National Reserve Bank (OAO) on behalf of MRK Energy DMCC. The purpose of the loan was to finance the construction of the gas pipeline "Kudarsky pereval—Tskhinval" in South Ossetia. As of December 31, 2008, the outstanding amount under this guarantee was RR6,959 million. In May 2008, we provided a guarantee to OAO Bank of Moscow on behalf of OAO Group E4 with respect to the loan received for the purpose of constructing power units. As of December 31, 2008 the outstanding amount of this guarantee was RR3,562 million (euro 86 million).

The Deposit Agreement

For a description of the Level I Deposit Agreement and the Rule 144A Deposit Agreement see "Description of the ADSs".

MANAGEMENT OF GAZPROM

Members of Gazprom's Board of Directors are elected annually at Gazprom's General Meeting of Shareholders. The current members of Gazprom's Board of Directors were elected in June 2011 and are as follows:

Name	Position	Year of Birth
V. Zubkov	Chairman of Gazprom's Board of Directors and First Deputy Prime Minister of the Russian Federation	1941
A. Miller	Deputy Chairman of Gazprom's Board of Directors and Chairman of Gazprom's Management Committee	1962
A. Akimov	Chairman of the Management Board, Gazprombank (Open Joint Stock Company)	1953
A. Ananenko	Deputy Chairman of Gazprom's Management Committee	1952
F. Gazizullin	Former Minister for Property Relations of the Russian Federation	1946
E. Karpel	Head of the Pricing and Economic Expert Analysis Department	1944
T. Kulibaev	Chairman of the Management Board, Samruk-Kazyna National Welfare Fund (Joint Stock Company)	1966
V. Mau	Rector of the Russian Presidential Academy of National Economy and Public Administration (Federal Budget-Funded Educational Institution of Higher Professional Education)	1959
V. Musin	Head of the Civil Procedure Law Department of the Saint-Petersburg State University	1939
M. Sereda	Deputy Chairman of Gazprom's Management Committee and Head of Administration of Gazprom's Management Committee	1970
I. Yusufov	Special Representative of the President of the Russian Federation for International Energy Cooperation and Ambassador-at-large of the Ministry of Foreign Affairs of the Russian Federation	1956

The current members of Gazprom's Management Committee are as follows:

Name	Position	Year of Birth	Term expires
A. Miller	Chairman of Gazprom's Management Committee	1962	May 2016
A. Ananenko	Deputy Chairman of Gazprom's Management Committee	1952	December 2011
V. Golubev	Deputy Chairman of Gazprom's Management Committee	1952	April 2013
S. Khomyakov	Deputy Chairman of Gazprom's Management Committee and Director-General of Gazprom's Corporate Security Service Branch in Moscow	1953	March 2012
A. Kozlov	Deputy Chairman of Gazprom's Management Committee	1952	March 2015
A. Kruglov	Deputy Chairman of Gazprom's Management Committee and Head of the Finance and Economics Department	1969	June 2012
A. Medvedev	Deputy Chairman of Gazprom's Management Committee and General-Director of Gazprom Export	1955	September 2012
E. Vasilieva	Deputy Chairwoman of Gazprom's Management Committee and Chief Accountant	1959	November 2011
O. Aksyutin	Head of the Gas Transportation, Underground Storage and Utilisation Department	1967	November 2013
N. Dubik	Head of the Legal Department	1971	June 2013
I. Fyodorov	Director-General of Gazprom komplektatsiya	1965	January 2012
Y. Golko	Head of the Investment and Construction Department	1961	January 2012
V. Ilyushin	Head of the Department for Relations with the Russian Federation Authorities	1947	September 2012
O. Pavlova	Head of the Asset Management and Corporate Relations Department	1953	January 2014
V. Cherepanov	Head of the Gas, Gas Condensate and Oil Production Department	1966	March 2015
V. Rusakova	Head of the Strategic Development Department	1953	September 2013
K. Seleznev	Head of the Gas and Liquid Hydrocarbons Marketing and Processing Department and Director-General of Gazprom mezhregiongaz	1974	September 2012

The business address for Gazprom's Board of Directors and Management Committee is 16 Nametkina Street, 117997 Moscow, Russian Federation.

Director Biographies

V. Zubkov. Viktor Alexeevich Zubkov has been Chairman of Gazprom's Board of Directors since June 27, 2008. Mr. Zoubkov was appointed First Deputy Prime Minister of the Russian Federation on May 12, 2008. He previously served as Prime Minister of the Russian Federation (September 2007—May 2008), Head of the Federal Financial Monitoring Service (2004-2007).

A. Miller. Alexei Borisovich Miller has been Deputy Chairman of Gazprom's Board of Directors since June 2002 and Chairman of Gazprom's Management Committee since May 2001. He was appointed to his position as Chairman of Gazprom's Management Committee by the Government, Gazprom's controlling shareholder. Mr. Miller is also a member of the supervisory and administrative bodies of Gazprombank, Sogaz, Gazprom Neft, Gazprom Media Holding, Gazfund, Shtokman Development AG and Gazprom Neft International S.A.

A. Akimov. Andrey Akimov has been a member of Gazprom's Board of Directors since June 2011. Since 2002, Mr. Akimov has served as the Chairman of the Management Board of Gazprombank. He is also a member of the Board of Directors of OAO Novatek.

A. Ananenkov. Alexander Georgievich Ananenkov has been a member of Gazprom's Board of Directors since June 2002 and Deputy Chairman of Gazprom's Management Committee since December 2001. Mr. Ananenkov is also a member of the supervisory and administrative bodies of Wintershall AG, Shtokman Development AG, non-commercial organisations Fund of Social and Economic Support for the Veterans of the North, OAO Objedinennaya Sudostroitelnaya Korporatsiya and is the Chief Editor of the magazine Gas Industry.

F. Gazizullin. Farit Rafikovich Gazizullin has been a member of Gazprom's Board of Directors since June 1998. Mr. Gazizullin previously served as Minister for Property Relations of the Russian Federation until 2004.

E. Karpel. Elena Evgenyevna Karpel has been a member of Gazprom's Board of Directors since June 2004. She has been Head of Gazprom's Economic and Appraisal Department since 1997. Ms. Karpel also serves as a member of the supervisory and administrative bodies of Latvijas Gaze, ArmRosGazprom, AO Overgaz Inc.

T. Kulibaev. Timur Kulibaev has been a member of Gazprom's Board of Directors since June 2011. Since 2011, Mr. Kulibaev has served as Chairman of the Management Committee and a member of the board of directors of Samruk-Kazyna National Welfare Fund (Joint Stock Company).

V. Mau. Vladimir Mau has been a member of Gazprom's Board of Directors since June 2011. Since 2002, Mr. Mau had served as rector of the Academy of National Economy under the Government of Russian Federation. Since 2010, he has served as rector of the Russian Presidential Academy of National Economy and Public Administration.

V. Musin. Valery Abramovich Musin has been a member of Gazprom's Board of Directors since June 2009. Since 1989, Mr. Musin has served as the Head of the Civil Procedure Department, Faculty of Law at St. Petersburg State University. Mr. Musin is also a senior partner in the Russian-British law firm "Musin and Partners" which associated with the English law firm Clyde & Co.

Mr. Musin took part in a number of court proceedings as the Arbitrator of the International Commercial Arbitration Court under the Russian Chamber of Commerce and Industry, as Chairman of the Arbitration Court

under the St. Petersburg Chamber of Commerce and Industry, and as Arbitrator of the Arbitration Institute of the Stockholm Chamber of Commerce.

M. Sereda. Mikhail Leonidovich Sereda has been a member of Gazprom's Board of Directors since 2002. Mr. Sereda has served as Head of the Administration of Gazprom's Management Committee and Deputy Chairman of Gazprom's Management Committee-Head of the Administration of Gazprom's Management Committee since 2004, although he is not a member of Gazprom's Management Committee. Mr. Sereda is also a member of the supervisory and administrative bodies of WIEH, WINGAS, Gazprom UK Ltd., Gazprombank, Vostokgazprom, ZAO Gaztelekom, OOO Temryukmortrans ("Temryukmortrans"), OAO Tsentrenergogaz, OAO Tsentrgez, OAO Tomskgazprom, OAO Gazpromtrubinvest, OAO Gazprom Kosmicheskoye Sistemy (formerly OAO Gazkom) and OAO Gazprom tsentrremont and he is a member of the executive body of AO Panrusgaz.

I. Yusufov. Igor Khanukovich Yusufov has been a member of Gazprom's Board of Directors since June 2003. Since 2004 through 2011 Mr. Yusufov had been Special Representative of the President of the Russian Federation for International Energy Cooperation and Ambassador-at-Large of the Ministry of Foreign Affairs of the Russian Federation.

Management Committee Biographies

A. Miller. See "—Director Biographies."

A. Ananenko. See "—Director Biographies."

V. Golubev. Valeri Alexandrovich Golubev has been Deputy Chairman of the Management Committee since late 2006. Mr. Golubev has been a member of Gazprom's Management Committee since June 2003; he was Head of Gazprom's Department of Investment and Construction from 2005 through 2006. Mr. Golubev is a member of the supervisory and administrative bodies of OAO Tsentrgez, OAO Volgogradneftemash, ZAO Gazprom Zarubegneftegaz (formerly ZAO Zarubegneftegaz), KazRosGaz, NP Russian Gas Community, AO Moldovagaz, OOO International Gas Transmission Consortium, Mosenergo, OOO Gazpromtrans, ArmRosGazprom, Gazprom Neft, OAO Beltransgaz, OOO Gazprom investproekt (formerly OOO Russkiye Energeticheskoye Proekty), and OAO Gazprom-Yuzhnaya Osetiya, a member of the executive bodies of the Kaunas Heating and Electrical Station and OAO Lietuvos Dujos. Mr. Golubev was Director-General of OOO Gazprom komplektatsiya (2005-2006).

S. Khomyakov. Sergey Fedorovich Khomyakov has been Deputy Chairman of Gazprom's Management Committee and Director-General of Gazprom's Corporate Security Service Branch in Moscow since 2008. He served as Director-General of Gazprom's Security Service in 2007 and 2008. He served as First Deputy Director General of Gazprom Security Service from 2003 through 2007. He is also a member of the supervisory and administrative bodies of Gazprom Kosmicheskoye Sistemy (formerly OAO Gazkom) and OOO Gazprom investproekt (formerly OOO Russkiye Energeticheskoye Proekty).

A. Kozlov. Aleksander Nikolaevich Kozlov has been Deputy Chairman of Gazprom's Management Committee and a member of Gazprom's Management Committee since March 2005. From 2004 to 2005, he was Head of the Department of Material, Technical and Transportation Services of the Administrative Directorate of the President of the Russian Federation. Mr. Kozlov is also a member of the supervisory and administrative body of OAO Druzhba and Gazpromipoteka Fund, a non-commercial organisation.

A. Kruglov. Andrei Vyacheslavovich Kruglov has been Deputy Chairman of Gazprom's Management Committee and Head of the Finance and Economics Department since 2004. He has been a member of Gazprom's Management Committee since 2002 and Head of the Finance and Economics Department of Gazprom since 2003. Mr. Kruglov is also a member of the supervisory and administrative bodies of Gazprombank, Vostokgazprom, OAO Tomskgazprom, OAO Belgazprombank, Gazprom Neft, Sogaz and OAO Gazpromtsentrremont, Gazprom Germania GmbH, Gazprom Marketing and Trading Ltd, Gazprom EP

International B.V., OOO Gazprom investproekt (formerly OOO Russkiye Energeticheskiye Proekty), AO Overgaz Inc. and Gazprom neft finans B.V.

A. Medvedev. Alexander Ivanovich Medvedev has been Director-General of Gazprom Export (formerly Gazexport) and a member of Gazprom's Management Committee since 2002 and Deputy Chairman of Gazprom's Management Committee since 2005. Mr. Medvedev is a member of the supervisory and administrative bodies of WIEH, WINGAS, AO GazKop, VTB Bank (Austria) (formerly Donau Bank), AO Prometheus Gaz, ZAO Gazprom Zarubezhneftegaz (formerly ZAO Zarubezhneftegaz), AO Overgaz Inc., Severneftegazprom, KazRosGaz, Blue Stream Pipeline Company B.V., ZAO Gaztranzit, Gazprom Marketing and Trading Ltd, AO EuRoPol GAZ, Gazprom UK, ZAO Khokkeiny klub SKA (formerly ZAO SKA St. Petersburg), Shtokman Development AG, Gazprom EP International B.V., Gazprom Germania GmbH, OOO KHL, CEA Centrex Energy and Gas AG, Sakhalin Energy, South Stream Serbia AG, South Stream Hungary Zrt, South Stream Greece S.A., Erdgasspeicher Peissen GmbH and South Stream Austria GmbH. He is also a member of the executive bodies of AO Panrusgaz, AO YugoRosGaz and an executive director of South Stream Bulgaria AD.

E. Vasilieva. Elena Alexandrovna Vasilieva has been Deputy Chairman of Gazprom's Management Committee, Gazprom's Chief Accountant and a member of Gazprom's Management Committee since September 2001. Ms. Vasilieva is also a member of the supervisory and administrative bodies of Yamalgazinvest, Gazprombank, OAO Lazurnaya, Gazprom UK Ltd., Vostokgazprom and OOO Gazprom investproekt (formerly OOO Russkiye Energeticheskiye Proekty).

O. Aksyutin. Oleg Evgenievich Aksyutin has been a member of Gazprom's Management Committee and the Head of Gazprom's Gas Transportation, Underground Storage and Utilisation Department since 2008. Mr. Aksyutin was Chief Engineer and First Deputy Director General of Kavkaztransgaz from 2002 to 2007. He served as Director General of Gazprom Dobycha Nadym from 2007 through 2008.

N. Dubik. Nikolai Nikolaevich Dubik has been a member of Gazprom's Management Committee since June 25, 2008; he has been the Head of Gazprom's Legal Department since May 2008. Mr. Dubik is also a member of the supervisory and administrative bodies of Gazprom Neft Orenburg (formerly, ZAO Stimul) AO Moldovagaz, Sogaz, RosUkrEnergo AG, Gazprom Neft, AO EvRoPol Gaz, OAO Lazurnaya, OAO Gazprom Media Holding, Shtokman Development AG, Beltransgaz and Gazprom Neft International S.A.

I. Fyodorov. Igor Yuryevich Fyodorov has been Director-General of OOO Gazprom komplektatsiya formerly OOO Gazkomplektimpex since late 2006 and a member of the Management Committee since January 2007; he was Deputy General Director for Administrative and Legal Affairs-Head of the Legal Division of OOO Gazprom komplektatsiya from 2003 through 2006.

Y. Golko. Yaroslav Yaroslavovich Golko has been Head of Gazprom's Investment and Civil Construction Department since 2006 and a member of the Management Committee since January 2007; he was first Deputy Head of the Department of Investment and Construction from 2005 through 2006. Mr. Golko served as Deputy Head of the Division of Registration, Analysis and Corporate Policy of the Department of Asset Management and Corporate Relations from 2003 through 2005. Mr. Golko is also a member of the supervisory and administrative bodies of ZAO Gazprom Invest Yug (formerly ZAO Gazpromstroengineering), OAO Tsentr-gaz, non-commercial organisation Gazpromipoteka Fund, ZAO Yamalgazinvest, ZAO FNPTs NefteGazoAeroKosmos and OOO Gazpromtrans. He is also a President of Gazprom's Association of Project Organisations.

V. Ilyushin. Viktor Vasilievich Ilyushin has been a member of Gazprom's Management Committee since 1997 and Head of the Relations with Regional Authorities Department of the Russian Federation since 1998. He is also a member of the supervisory and administrative bodies of Yamalgazinvest, OAO Sogaz-med (formerly OAO Gazprommedstrakh) and OAO Gazprom gazoraspredeleniye (formerly OAO Gazpromregiongaz).

O. Pavlova. Olga Petrovna Pavlova has been a member of Gazprom's Management Committee since 2004 and Head of Gazprom's Asset Management and Corporate Relations Department since 2003. Ms. Pavlova is a member of the supervisory and administrative bodies of OAO Gazprom gazoraspredeleniye (formerly OAO Gazpromregiongaz), ZAO Nortgaz, OAO Gazprom Kosmicheskiye Sistemy (formerly OAO Gazkom), ZAO Gazprom Neft Orenburg (formerly, ZAO Stimul), OAO Lazurnaya, Gazprom Neft, Severneftegazprom, non-commercial organisation Gazpromipoteka Fund, Mosenergo and OOO Gazprom investproekt (formerly OOO Russkiye Energeticheskiye Proekty) and Gazprom neft finans B.V.

V. Cherepanov. Vsevolod Vladimirovich Cherepanov has been a member of Gazprom's Management Committee and Head of Gazprom's Gas, Gas Condensate and Oil Production Department since 2010. He is also a member of the supervisory and administrative bodies of ZAO Achimgaz, ZAO Gazprom Zarubegneftegaz, OOO TsentrCaspNeftegaz, ZAO Gazprom Neft Orenburg, Shtokman Development AG, Gazprom EP International B.V., Gazprom neft, Gazpromviet and OAO Severneftegazprom. Previously Mr. Cherepanov was a senior geologist (2005-2008) and Deputy Director General, senior geologist (2008-2010) of OOO Gazprom dobycha Nadym (formerly, OOO Nadyngazprom).

V. Rusakova. Vlada Vilorikovna Rusakova has been a member of Gazprom's Management Committee and Head of Gazprom's Strategic Development Department since 2003. She is also a member of the supervisory and administrative bodies of AO Latvijas Gaze, OAO Gazprom promgas, South Stream Serbia AG, South Stream Hungary Zrt, South Stream Greece S.A., South Stream Bulgaria AD and South Stream Austria GmbH.

K. Seleznev. Kirill Gennadievich Seleznev has been a member of Gazprom's Management Committee and Head of Gazprom's Gas and Liquid Hydrocarbons Processing and Marketing Department since 2002. Since 2003, he has served as Director General of OOO Gazprom mezhregiongaz. Mr. Seleznev is also a member of the supervisory and administrative bodies of Latvijas Gaze, KazRosGaz, Vostokgazprom, ZAO Nortgaz, Gazprom Neft, OAO Gazprom neftekhim Salavat, OAO Tomskgazprom, OAO Gazprom gazoraspredeleniye, (formerly OAO Gazpromregiongaz), Novatek, ZAO Zenit Football Club, Russian Gas Community, a non-commercial partnership, OAO Sibur Holding, OAO Mosenergo, OAO TGK-1, OAO Inter Rao UES, OAO AB Rossiya and Gazprombank. He also serves as a member of the executive bodies of Lietuvos Dujos, Kaunas Heating and Electrical Station.

Litigation Statement about Gazprom's Management

As at the date of this Prospectus, none of the members of Gazprom's Board of Directors or Management Committee has at any time within the last five years:

- (i) had any convictions in relation to fraudulent offences;
- (ii) been a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- (iii) been subject to any official public incrimination and/or sanctions by a statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Description of Gazprom's Management

In accordance with the Joint Stock Companies Law and Gazprom's Charter, Gazprom's operations are governed by Gazprom's General Meeting of Shareholders, Board of Directors, Management Committee and the Chairman of the Management Committee. The General Meeting of Shareholders is Gazprom's highest governing body and, among other things, elects Gazprom's Board of Directors. Gazprom's Board of Directors is responsible for formulating the strategy and the executive bodies (the Management Committee and the

Chairman of the Management Committee) are responsible for implementing the strategy and managing Gazprom on a day-to-day basis. All the governing bodies act in accordance with the laws of the Russian Federation, Gazprom's Charter and the regulations of these governing bodies which were approved by the General Meeting of Shareholders of Gazprom on June 28, 2002.

General Meeting of Shareholders

The General Meeting of Shareholders takes place annually, usually in June. The following decisions, among others, can be taken only by the General Meeting of Shareholders: amendments to the Charter, Gazprom's reorganisation or liquidation, the election of the members of Gazprom's Board of Directors and Audit Commission, the determination of the quantity, category and nominal price of authorised shares as well as rights arising out of the ownership of shares, increases in the charter capital (when such decision is reserved for the General Meeting of Shareholders by the Charter in accordance with provisions of the Joint Stock Companies Law), reduction of the charter capital, approval of the annual report and annual accounts, approval of large transactions and transactions that involve interested parties (where such decision is within the authority of the General Meeting of Shareholders in accordance with the Joint Stock Companies Law), as well as making other decisions in accordance with the terms of the Joint Stock Companies Law and the Charter.

Board of Directors

Gazprom's Board of Directors is responsible for the general management of Gazprom's activities. The General Meeting of Shareholders determines the number of members of Gazprom's Board of Directors, which cannot be less than nine. Currently, there are 11 members of Gazprom's Board of Directors. The Chairman of Gazprom's Board of Directors, Mr. Zubkov, is the First Deputy Prime Minister of the Russian Federation. A total of six members of Gazprom's current Board of Directors were nominated by the Government, including the Chairman of the Management Committee. The other members of Gazprom's Board of Directors consist of one member of the Management Committee, two members of Gazprom's management and two other members.

The powers of Gazprom's Board of Directors include determining the priorities of Gazprom's operations, approving annual budgets, calling General Meetings of Shareholders and determining the agenda for such meetings, determining the record date for Gazprom's General Meetings of Shareholders, increasing Gazprom's charter capital (except where such increase is within the authority of the General Meeting of Shareholders), issuing bonds or other securities in accordance with the Joint Stock Companies Law, appointing Gazprom's executive bodies (such as the Management Committee and the Chairman of the Management Committee), deciding on early termination of the powers of these bodies, approving candidates nominated by the Chairman of the Management Committee for the position of Deputy Chairman of the Management Committee, determining the remuneration of the Chairman and members of the Management Committee, recommending the size of dividends for approval by the General Meeting of Shareholders, using the reserve and other funds, creating branch and representative offices, specifying the means of effecting transactions, adopting decisions on major transactions and certain "interested party" transactions (except for those major or "interested party" transactions for which approval is within the competence of the General Meeting of Shareholders), establishing the terms of cooperation with subsidiaries and organisations of which Gazprom holds stock and equity participations, and other matters.

In 2002, Gazprom's Board of Directors adopted a resolution whereby all transactions, involving: (i) interests or participations that Gazprom or its subsidiaries hold in other companies; (ii) loans or other borrowings including guarantees by Gazprom having a value greater than 0.3% of Gazprom's balance sheet assets determined under Russian accounting principles; and (iii) purchases or disposals of Gazprom's fixed assets having a value greater than 0.3% of its balance sheet assets determined under Russian accounting principles, require approval by Gazprom's Board of Directors. Similar documents were adopted by all of Gazprom's significant joint-stock subsidiaries with respect to their activities.

Members of Gazprom's Board of Directors are elected by the General Meeting of Shareholders by a system of cumulative voting for a term lasting until the next annual General Meeting of Shareholders and may be re-elected an unlimited number of times. The General Meeting of Shareholders may also terminate the authority of all members of Gazprom's Board of Directors before the expiration of their terms. Members of the

Management Committee may not comprise more than one-quarter of Gazprom's Board of Directors. The Chairman of Gazprom's Board of Directors is elected from and by the members of Gazprom's Board of Directors by a majority vote and may be re-elected at any time by a special resolution requiring at least a two-thirds majority. The Chairman of the Management Committee cannot simultaneously serve as the Chairman of Gazprom's Board of Directors.

Audit Committee

The Audit Committee under the Gazprom Board of Directors is primarily focused on assessing the nominations for Gazprom's auditor, the auditor's report, and the effectiveness of Gazprom's internal control procedures, as well as the evaluation of proposals on their improvement. The Audit Committee members were elected pursuant to the provisions of the guidelines in relation to the formation and functioning of the Audit Committee that have been adopted by the Gazprom Board of Directors. The authority of the Committee Members expires simultaneously with the expiry of the authority of the Board of Directors that formed the relevant Audit Committee. Currently, Valery Musin is the Chairman of the Audit Committee, and Farit Gazizullin and Mikhail Sereda are the other members of the Audit Committee.

Remuneration policy in relation to Members of the Board of Directors and the Management Committee

Gazprom currently does not have a remuneration committee. The compensation paid to members of the Board of Directors is approved by the shareholders of Gazprom at its annual general meeting. The members of the Board of Directors who hold public office or positions in the civil service, however, do not receive any compensation from Gazprom.

In November 2010, the Regulation on procedures for determining the compensation payable to members of Gazprom's Board of Directors was adopted. Under the terms of this regulation, the compensation paid to a member of the Board of Directors is in cash and is composed of two parts: (i) basic (which relates to the compensation paid for discharging duties as a member of the Board of Directors); and (ii) premium (which relates to the discharge of any additional responsibilities such as acting as the Chairman or Deputy Chairman of the Board of Directors or serving in one of the committees of the Board of Directors).

The compensation paid to the Chairman of the Management Committee, the members of the Management Committee, and the members of the Board of Directors who are employees of Gazprom, is in keeping with the terms of the relevant service contracts and also includes payment for health services. In order to motivate top executives, Gazprom has introduced an annual bonus system under which shares are awarded to key members of management for their contribution towards achieving individual and corporate targets and enhancing overall shareholder value.

Management Committee

The Management Committee and the Chairman of the Management Committee are Gazprom's executive bodies. The Chairman and other members of the Management Committee are each appointed by Gazprom's Board of Directors for a term of five years. Gazprom's Board of Directors has the right to terminate the authority of any member of the Management Committee as well as the Chairman of the Management Committee.

The authority of the Management Committee includes (i) developing forward-looking plans and principal programmes for approval by Gazprom's Board of Directors, including Gazprom's annual budget and Investment Programmes, and preparing reports on the implementation of those programmes; (ii) organising gas flow management and management of the UGSS; (iii) organising control over the development of Gazprom's current and prospective plans and programmes; (iv) approving the rules governing the organisation and reliability of Gazprom's bookkeeping accounts and the timely preparation of the annual report and other financial reports; and (v) presenting information about Gazprom's activities for the use of shareholders, creditors, and the media.

The Management Committee meets, in general, at least twice every month in accordance with a schedule that is approved by the Chairman of the Management Committee.

Chairman of the Management Committee

The Chairman of the Management Committee has authority to act in Gazprom's name without power of attorney, presents Gazprom's interests, approves staff, issues orders and decrees, gives instructions to be carried out by all of Gazprom's employees and issues internal documents with respect to the current activities, with the exception of internal documents which are within the authority of Gazprom's other management bodies.

Corporate Governance

As of the date of this Prospectus, the Company is in compliance with the corporate governance requirements of applicable Russian law. At the 2002 annual General Meeting of Shareholders, Gazprom's shareholders approved a corporate governance charter that sets forth procedures for the protection of the rights of Gazprom's shareholders. We intend to maintain transparency with respect to our activities through ongoing, timely publication of interim and year-end IFRS financial information, improved levels of disclosure for public market financings and improved relations with our shareholders.

In 2005, Gazprom's Board of Directors approved an expenditure management directive that is currently being implemented by Gazprom and its major subsidiaries. In accordance with this directive, we have implemented policies in order to improve our budgeting system and cost management procedures and have targeted our operational planning system to achieve our long-term goals in accordance with certain specific strategic indicators. We have also developed standards and procedures for regulating the accumulation and utilisation of our resources. In addition, we continue to implement new information technology in order to establish a unified information system within the Group, as provided for in our IT strategy approved by our management committee.

Since 2005, an Audit Committee has been reappointed by Gazprom's Board of Directors. The Audit Committee evaluates potential auditors, the efficiency of internal control procedures and the auditor's opinion for the annual General Meeting of Shareholders. The members of the Audit Committee are appointed annually by the Board of Directors.

We have implemented a liability insurance programme for Gazprom's Board of Directors and Management Committee members. The insurance programme indemnifies such persons against claims made by shareholders, creditors and other persons for damages resulting from the actions or inactions (except for intentional misconduct) of a member of Gazprom's Board of Directors or Management Committee in managing Gazprom. The coverage under this liability insurance programme complies with international director and officer insurance standards. The policy limit under this liability insurance amounts to U.S.\$100 million.

Additional Information about Gazprom's Directors and Management Committee Members

Directors' and officers' compensation

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of Group companies, amounted to approximately RR1,561 million, RR1,382 million and RR2,056 million for the years ended December 31, 2010, 2009 and 2008, respectively. Such amounts include personal income tax and compulsory insurance contributions into extra-budgetary funds (prior to January 1, 2010, this was known as unified social tax). Compensation of key management personnel (other than remuneration for serving as directors of a company of the Group) is determined by the terms of the employment contracts.

Members of Gazprom's Board of Directors, who are not government officials, receive compensation from Gazprom in cash, in accordance with the regulation on procedures for determining the compensation payable to members of Gazprom's Board of Directors adopted in November 2010. The compensation paid to the members of the Board of Directors is approved by the annual General Meeting of Shareholders, including reimbursement of expenses incurred by the members of Gazprom's Board of Directors relating to their responsibilities as such. Government officials, who are directors, do not receive any remuneration from the

Group. The remuneration for serving on boards of directors of other companies of the Group is subject to approval by the general meeting of shareholders of each such company.

Members of Gazprom's Management Committee are entitled to a number of benefits in kind provided by the Company, including pension plans, medical insurance, compensation of expenses for mobile communication, driver services and others. Members of Gazprom's Board of directors do not receive benefits in kind of the nature described above. However, they do have access to some health and recreation facilities provided by Gazprom.

No member of Gazprom's Board of Directors or Management Committee is a party to any service contract with Gazprom or any of its subsidiaries where such contract provides for benefits upon termination of employment.

Share ownership by directors and Management Committee members

As of the date of this Prospectus, the aggregate direct ownership of Gazprom's shares by the members of Gazprom's Management Committee and Board of Directors was 3,057,237 Shares or 0.01291416% of the total Shares in issue.

The following table shows the number of Shares and the percentage of the total Shares in issue beneficially owned by members of Gazprom's Board of Directors as of the date of this Prospectus:

Name	Number of Shares held	Percentage of Shares held
A. Miller	226,859	0.00095828%
A. Ananenko	1,641,198	0.00693263%
E. Karpel	177,138	0.00074825%
M. Sereda	62,448	0.00026379%

As of the date of this Prospectus, members of Gazprom's Board of Directors had no options over Shares.

The following table shows the number of Shares and the percentage of the total Shares in issue beneficially owned by members of Gazprom's Management Committee as of the date of this Prospectus:

Name	Number of Shares held	Percentage of Shares held
A. Miller	226,859	0.00095828%
A. Ananenko	1,641,198	0.00693263%
V. Golubev	175,790	0.00074256%
S. Khomyakov	47,112	0.00019901%
A. Kozlov	62,448	0.00026379%
A. Kruglov	76,167	0.00032174%
A. Medvedev	47,038	0.00019869%
E. Vasilieva	66,605	0.00028135%
O. Aksyutin	51,573	0.00021785%
N. Dubik	225,959	0.00095448%
I. Fyodorov	32,215	0.00013608%
Y. Golko	18,248	0.00007708%
V. Ilyushin	36,186	0.00015285%
O. Pavlova	40,626	0.00017161%
V. Cherepanov	3,000	0.00001267%
V. Rusakova	33,856	0.00014301%
K. Seleznev	32,774	0.00013844%

As of the date of this Prospectus, members of Gazprom's Management Committee had no options over Shares.

Conflicts of Interest

Gazprom is not aware of any potential conflicts of interest between any duties of the members of its Board of Directors or Management Committee owed to it and their own private interests and/or other duties.

SHAREHOLDING STRUCTURE OF GAZPROM

Gazprom's charter capital amounts to RR118,367,564,500, consisting of 23,673,512,900 common shares with a nominal value of RR5 each.

The Russian Federation currently controls over 50% of our shares. As our controlling shareholder, the Russian Federation has a strong influence over the major decisions made at our shareholder meetings and, as the nominating party for a majority of the members of Gazprom's Board of Directors, is able to determine our strategy, make policy decisions in relation to the main areas of our business (including investments, borrowings, risk management and asset allocation), and supervise the implementation of such decisions. Minority shareholders of Gazprom enjoy protections provided under the applicable corporate laws of the Russian Federation to which Gazprom and the Russian Federation, as its controlling shareholder, strictly adhere. For a summary of these protections, see "Description of Share Capital and Certain Requirements of Russian Legislation". Other than as set out above, Gazprom does not have any other measures that have been instituted to prevent any potential abuse of control by our controlling shareholder. We are also a "natural monopoly" in the transportation of natural gas under the Federal Law No. 147 FZ, dated August 17, 1995 (the "Natural Monopoly Law"), which means that the tariffs we charge for gas transportation through our trunk pipelines are subject to regulation by the Government.

As of May 12, 2011, the number of Gazprom's registered shareholders was 527,291. Gazprom's common shares are traded at the leading Russian stock exchanges, including the Moscow Interbank Currency Exchange, the Russian Trading System Stock Exchange and the Saint Petersburg Stock Exchange.

In April 2006, Gazprom converted the then Regulation S ADS facility to a Level I ADS facility, which provides for the conversion of Gazprom Shares into ADSs and vice versa. The Bank of New York Mellon acts as the Depositary and at present, Gazprom's Level I ADSs are freely tradeable on the over-the-counter stock market in the United States, the London Stock Exchange under the symbol OGZD and on other European exchanges such as the Berlin-Bremen Stock Exchange and the Frankfurt Stock Exchange. Further, Gazprom has previously issued Rule 144A ADSs in the United States to QIBs. The maximum volume of the Shares subject to the Level I ADSs and the Rule 144A ADSs may not exceed 35% of Gazprom's charter capital. ADSs for Gazprom's shares issued in 1996 pursuant to a private placement were automatically converted into ADSs and remain listed on the London Stock Exchange.

The following table sets forth information regarding the beneficial ownership of Gazprom shares as of September 29, 2011:

Shareholders	(%)
Interest controlled by the Russian Federation ⁽¹⁾	>50.0
ADS holders (through The Bank of New York Mellon) ⁽²⁾	28.35
Other entities ⁽²⁾	21.65
Total	100

Notes:

- (1) The interest controlled by the Russian Federation consists of 38.4% owned by the Federal Agency For State Property Management, 10.7% owned by OAO Rosneftgaz and 0.9% owned by OAO Rosgazifikatsiya, each of which is controlled by the Russian Federation. In the aggregate, the Russian Federation controls 50.002% of Gazprom shares.
- (2) Includes 3.05% of Gazprom shares owned by Gazprom subsidiaries.

No beneficial owner, except for the Russian Federation, owns individually or together with its affiliates, 5% (the minimal notifiable threshold under Russian law) or more of Gazprom shares.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

Set forth below is a description of Gazprom's share capital, the material provisions of the Gazprom charter in effect as of the date of this Prospectus and certain requirements of Russian law applicable to Gazprom as an open joint stock company and Shares. This description does not purport to be complete and is qualified in its entirety by reference to Gazprom charter and applicable Russian law.

History and Purpose

Gazprom was registered with the Moscow Registration Chamber on February 25, 1993, under registration number 022.726. On August 2, 2002, Gazprom was registered in the Unified State Register of Legal Entities and it was allocated a state registration number 1027700070518.

Article 3 of the Gazprom's charter provides that Gazprom's main objective is the organisation of effective performance in the area of, and making of the profit from, the supply of gas, gas condensate, oil and oil products to domestic and foreign customers.

Description of Share Capital

General

Pursuant to Gazprom's charter, it has the right to issue ordinary shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities.

Gazprom's charter capital is currently RR118,367,564,500 and consists of 23,673,512,900 ordinary shares, each with a nominal value of RR5, all of which are fully paid, issued and outstanding. There have been no changes to Gazprom's charter capital since 1998. The ISIN for the Shares is RUR0007661625. Under Russian legislation, charter capital refers to the aggregate nominal value of the issued and outstanding shares. All of Gazprom's shares have been issued and registered in accordance with procedures set out in the Federal Law No. 39-FZ "On the Securities Markets" dated April 22, 1996, as amended (the "Securities Market Law") and other applicable securities regulations. The ordinary shares are in registered, book-entry form. The entity responsible for keeping book-entry records is CJSC "SR-DRAGa" (Novochemushkinskaya Street 71/32, Moscow, Russia). As of September 29, 2011, Gazprom had no treasury shares and our subsidiaries held 3.05% of Gazprom's ordinary shares. The Joint Stock Companies Law requires Gazprom to dispose of any of Gazprom's shares that Gazprom acquires within one year of such acquisition or, failing that, to reduce its charter capital. Gazprom does not have any outstanding convertible securities or exchangeable securities or securities with warrants in relation to our charter capital.

In accordance with the Joint Stock Companies Law and Gazprom's charter, a decision on any issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of ordinary shares or securities convertible into ordinary shares constituting more than 25% of the number of issued ordinary shares, requires a three quarters majority vote of a shareholders' meeting. The Board of Directors is authorised to issue additional ordinary shares up to 25% of the previously issued shares through open subscription without obtaining further shareholder approval. As of the date of this Prospectus, Gazprom had not issued any additional shares.

The amount of Gazprom's charter capital significantly exceeds the minimum requirement established by the laws of the Russian Federation for open joint stock companies. If Gazprom adopts a decision to decrease its charter capital in accordance with the Joint Stock Companies Law, it must notify the authority which carries out state registration of legal entities of the decision to reduce its charter capital within three business days and it must publish this decision twice with a monthly interval between publications. Within 30 days of the last of such publications, our creditors, whose claim rights had occurred prior to the publication, would then have the right to accelerate our indebtedness and to demand reimbursement of applicable damages.

Rights of Shareholders

As of the date of this Prospectus, Gazprom has issued ordinary shares and has not issued any preferred shares.

As required by the Joint Stock Companies Law and Gazprom's charter, all of Gazprom's ordinary shares grant identical rights to each holder. None of Gazprom's current shareholders has voting rights which differ from those of any other holders of the Shares. Each fully paid ordinary share, except for certain circumstances expressly provided for by law (e.g., when a shareholder acquires shares in excess of certain threshold and is required to make a mandatory offer to purchase shares of other shareholders), gives its holder the right to:

- transfer such ordinary share freely without the consent of other shareholders;
- participate in Gazprom's management as provided by the Joint Stock Companies Law and Gazprom's charter;
- participate in the general shareholders' meeting with the right to vote on all matters within the shareholders' competence, including through a representative acting on the basis of a power of attorney;
- receive dividends in accordance with the Joint Stock Companies Law and the Gazprom's charter if the general shareholders' meeting resolves to pay such dividends (always subject to the Board of Directors' recommendation);
- upon Gazprom's liquidation, receive a proportionate amount of Gazprom's property after Gazprom's liabilities are discharged;
- demand repurchase of all or some of the shares owned by such holder if the holder votes against or does not participate in voting on the decision of the shareholders meeting approving any of the following:
 - any reorganisation;
 - entering into a major transaction, as defined by the Joint Stock Companies Law; and
 - amendment of Gazprom's charter or approval of a new addition to the Gazprom's charter that limit shareholder's rights;
- exercise statutory pre-emptive rights to acquire Gazprom's ordinary shares in accordance with applicable Russian law;
- have access to certain of Gazprom's documents, receive copies for a reasonable fee and, if holding alone or with other shareholders 25% or more of the voting shares, have free access to accounting documents;
- if holding, alone or with other holders, 1% or more of the voting shares, file a lawsuit against a director or member of any of Gazprom's executive bodies (including the Chairman of the Management Committee) to reimburse damages suffered by Gazprom due to their fault;
- if holding, solely or jointly with other shareholders, not less than 1% of Gazprom's outstanding ordinary shares, obtain a list of persons entitled to participate in the general shareholders' meeting;
- if holding, solely or jointly with other shareholders, not less than 2% of Gazprom's voting shares, may, not later than 30 days after the end of the relevant financial year, propose matters for the agenda of the annual shareholders' meeting and nominate candidates to the Board of Directors and the Audit Commission;
- if holding, solely or jointly with other shareholders, not less than 10% of Gazprom's voting shares, demand that the Board of Directors call an extraordinary general meeting of shareholders or an unscheduled audit of Gazprom by the Audit Committee or an independent auditor; and
- exercise other rights of a shareholder provided by the Gazprom's charter, under Russian law or by decisions of a general shareholder's meeting.

Pre-emptive Rights

The Joint Stock Companies Law and the Gazprom's charter grant existing shareholders a pre-emptive right to purchase, pro rata to their existing shareholdings, any shares of the same class, or securities convertible into such shares, that are proposed for placement in an open subscription. Shareholders who voted against or did not participate in voting on the placement of shares or securities convertible into such shares in a closed subscription also have a pre-emptive right to acquire such shares or securities pro rata to their shareholdings in the relevant class of securities. This rule does not apply when the shares and securities convertible into shares are placed through a closed subscription solely among existing shareholders if all existing shareholders are entitled to acquire new shares and securities convertible into shares in an amount that is proportionate to their existing shareholdings of the relevant class of securities.

Shareholders may exercise their pre-emptive rights within the period of not less than 45 days from the date of the notice of their pre-emptive right. However, if the offer price of the shares, or the securities convertible into shares, in each case in an open subscription, is to be determined only after the end of the period during which the shareholders may exercise their pre-emptive rights, Gazprom must provide shareholders with 20 days written notice of the proposed offering, during which time the shareholders may exercise their pre-emptive rights by sending a relevant notice. Once the offer price has been determined and disclosed, shareholders may pay for their new shares within a period set by us, which must not be less than five business days.

Anti-Takeover Protection and Share Acquisition above Certain Thresholds

Pursuant to the Joint Stock Companies Law, a person intending to purchase more than 30 percent of the total number of the ordinary shares and preferred shares (provided that such shares carry voting rights) in an open joint stock company (taking into account shares already held by it and its affiliates) has the right to make a voluntary public offer to all the shareholders. The public offer shall be provided to the FSFM prior to or where it is allowed on the same day as, submission to the company for distribution to all shareholders.

Within 35 days after acquisition by any means of more than 30 percent of shares with voting rights in an open joint stock company, the purchaser must make a public offer to purchase the remaining shares with voting rights and securities convertible into such shares with voting rights, from the holders of such securities in the form of a mandatory public offer. The obligation to make a mandatory public offer also arises for a shareholder who has acquired shares with voting rights and, as a result of such acquisition, the number of the shares with voting rights held by it and its affiliates has passed the threshold of 50 percent or 75 percent of a company's shares with voting rights. In each case the Russian Federal Service for Financial Markets ("FSFM") must be notified of the public offer. The price of the securities to be specified in the mandatory public offer may not be lower than (i) the average trading price of the securities over the six month period immediately preceding the date on which the FSFM is notified of the mandatory public offer (if the securities are admitted to trading on a stock exchange) or their market value determined by an independent appraiser (if the securities are not publicly traded or the securities are publicly traded for a period less than six months), or (ii) the maximum price for which the shareholder who has made the mandatory public offer (or its affiliates) has acquired or agreed to acquire such securities over the six months immediately preceding the date on which the mandatory public offer is made. The purchaser's payment obligations under voluntary and mandatory offers are required to be secured by an irrevocable bank guarantee. At any time after a company receives a voluntary or a mandatory public offer, and up to 25 days prior to the expiration of the relevant acceptance period, any person has the right to make a competing public offer (that satisfies the requirements for voluntary or mandatory public offers, as the case may be) to purchase a number of shares, and at a price, that is greater than or equal to that of the original offer. Any shareholder may revoke its previous acceptance of the original offer and accept the competing offer. A copy of the competing offer must be sent to the person who made the original offer so that such person may amend their offer by increasing the purchase price and/or shortening the settlement period. Voluntary and mandatory public offers to acquire shares must contain information provided by the Joint Stock Companies Law and must be sent through the company whose shares are to be acquired. An offer is deemed to have been made to all shareholders as of the time at which the offer is received by the company. According to the Joint Stock Companies Law, a public offer must be accompanied by an irrevocable bank guarantee securing the obligation of the offeror to purchase all of the shares held by other shareholders. The guarantor's details and the bank guarantee terms must be specified in the offer sent to the company. The bank guarantee must be effective for at least six months after the expiry of the relevant acceptance period. According to the Joint Stock Companies Law, a person intending to

make an offer must send such offer to the FSFM which has the power to issue an order to bring the offer into compliance with the requirements set forth in the Joint Stock Companies Law. In the event that the offeror proposes to acquire securities that are traded on a stock exchange, the offer must be sent to the FSFM 15 days prior to its delivery to the company subject to the offer. If the securities to be acquired are not traded on a stock exchange, the offer must be sent to the FSFM on or before the date of its delivery to the company which shares are to be acquired. The board of directors of a company that receives an offer must make a recommendation with respect to such offer within 15 days after receipt of the offer. The board of directors' recommendation shall include an opinion on the share price offered in a public offer and the potential change in such price after the acquisition of shares is completed as well as an opinion on the offeror's plans in relation to the company and its employees. The company must send the public offer, together with the board of directors' recommendation, to all shareholders. The Joint Stock Companies Law provides that, during the acceptance period, the offeror may not acquire securities with respect to which it has made the public offer on terms other than the terms specified in the public offer. The acceptance period is determined by the offeror, subject to certain limitations set forth in the Joint Stock Companies Law. The acceptance period may not be less than 70 days or more than 90 days (in the case of voluntary public offers) or 80 days (in the case of mandatory public offers) from the date on which the public offer was received by the company. The holders of the securities to be acquired may accept the offer by sending the offeror an application to sell their securities by mail or by any other means provided for in the offer. When a company receives an offer, decisions on certain important corporate issues, such as the placement of additional securities; the approval of a transaction or a series of related transactions involving assets with a value exceeding ten percent of the company's balance sheet assets as of the date of the company's most recent financial statements prepared according to the Russian accounting standards ("RAS"); the approval of interested party transactions; and other issues specified in the Joint Stock Companies Law shall be adopted only by a general meeting of the shareholders of the company. The competence of the general meeting of the shareholders is therefore extended as a result of a company receiving an offer. If, as a result of either a voluntary or a mandatory public offer, the purchaser, solely or jointly together with its affiliates, purchases more than 95 percent of the shares with voting rights, it will be obliged to (i) notify all the other holders of the securities (within 35 days after the acquisition of shares with voting rights above such threshold) of their right to sell their securities, and (ii) purchase the securities of each minority security holder upon request. Such notification should be accompanied by an irrevocable bank guarantee. A purchaser also has the right to buy out the shares of minority shareholders, provided that it has purchased not less than 10 percent of the shares in the course of either the voluntary or the mandatory public offer. The buy-out offer or notice must be filed with the FSFM prior to their submission to the company.

Dividends and Dividend Rights

The Joint Stock Companies Law and the Gazprom's charter set forth the procedure for determining the dividends that Gazprom can distribute to our shareholders. According to the Gazprom's charter, dividends may be paid annually, every nine months, semi-annually and quarterly. A decision on dividends must be taken at the general meeting of shareholders (annual or extraordinary) based on the Board of Directors' recommendation. A majority vote of the Board of Directors must recommend that dividends be paid and such recommendation then must be approved by a majority vote at a general meeting of shareholders. The amount of the dividend approved at the shareholders' meeting may not be more than the amount recommended by the Board of Directors. When making recommendations about payment, and when Gazprom pays dividends, it is required to follow the limitations established by the Joint Stock Companies Law. Dividends are distributed to holders of Gazprom's shares as of the record date for the shareholders' meeting approving the dividends. In accordance with amendments to the Joint-Stock Companies Law, which entered into force on December 28, 2010, a company is required to pay dividends within the time period, which is indicated in the shareholders' resolution approving the dividends, which may not be more than 60 days from the date of such resolution. A shareholder who is entitled to the declared dividends but has not received them has the right to make a claim to the company within three years upon expiry of the 60-day period. Upon expiry of this three year period, claims for declared and unpaid dividends will lapse in favour of the company. The dividends per Share paid by Gazprom for the years ended December 31, 2010, 2009 and 2008 were RR3.85, RR2.39 and RR0.36, respectively.

Dividends are not paid on treasury shares.

The paid dividends are subject to taxation. See "*Taxation*". Under the Joint Stock Companies Law, dividends may only be paid to shareholders out of net profits calculated under RAS. The Joint Stock Companies

Law allows dividends to be declared only out of net profits calculated according to RAS and as long as the following conditions have been met:

- the share capital has been paid in full;
- the value of net assets, less the proposed dividend payment, is not less than, and would remain following the payment of dividends, not less than the sum of Gazprom's share capital, reserve fund and the difference between the liquidation value and the par value of issued and outstanding preferred shares, if any;
- all shares from shareholders who have exercised their right to demand repurchase of their shares by Gazprom have been repurchased;
- the company is not, and will not become as a result of the payment of dividends, insolvent; and
- in other cases provided by law.

Furthermore, Gazprom is prohibited from paying declared dividends under the Joint Stock Companies Law if any of the following events have occurred and are continuing:

- Gazprom is insolvent on the scheduled date of payment of such dividends or could become insolvent as a result of such payment; or
- the value of Gazprom's net assets, calculated in accordance with Russian accounting standards, is less, and would, as a result of the proposed dividend payment, become less, than the sum of Gazprom's share capital, Gazprom's reserve fund and the difference between the liquidation value and the par value of Gazprom's issued and outstanding preferred shares; and
- in other cases provided by law.

Distributions to Shareholders on Liquidation

Gazprom's charter does not provide for any distribution of its profits other than in the form of dividends. However, the Civil Code provides that each of Gazprom's shareholders may receive a pro-rata portion of the assets upon its liquidation after the settlement of all of its outstanding debts (including payment of all outstanding taxes and salaries).

Under Russian law, the liquidation of a company results in its ceasing to exist without the transfer of its rights and obligations to any person as its legal successor. The Joint Stock Companies Law allows Gazprom to be liquidated:

- by a three-quarters majority vote at a general meeting of shareholders; or
- by court order.

Following a decision to liquidate, the right to manage Gazprom's affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by a three-quarters majority vote at a shareholders' meeting and, in the case of an involuntary liquidation, is appointed by the courts. Creditors may file claims within a period to be determined by the liquidation commission, but which must be at least two months from the date of publication of the notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

- first priority — compensation to individuals for injuries or deaths, or moral damages;
- second priority — employees and copyright claims;
- third priority — federal and local governmental authorities claiming taxes and similar payments to budget and non-budgetary funds; and
- fourth priority — other creditors in accordance with Russian law.

Claims of creditors which are secured by a pledge of a company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of such creditors arose before the respective pledges have been entered into. Any residual claims made by secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with claims of the fourth-priority creditors. The assets of a company which remain after creditors' claims have been fully satisfied are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders who have the right to demand repurchase of their shares by the company;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares determined by Gazprom's charter; and
- distribution of the remaining assets of a company between the holders of ordinary and preferred shares on a pro rata basis.

Liability of Shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and only bear the risk of loss of their investments in a company's shares. This may, however, not apply to companies or individuals who are capable of determining decisions and directing the business of a Russian joint stock company, if this is provided by the charter of such company or by an agreement between a company and the relevant shareholder. A company or individual capable of determining such decisions and directing the business of another company is called an "effective parent". The company whose decisions are capable of being determined or whose business is capable of being directed is called an "effective subsidiary".

If the effective subsidiary is a joint stock company, the effective parent bears joint and several liability for a transaction entered into by the effective subsidiary if (i) the effective parent caused the effective subsidiary to enter into the transaction by giving binding instructions to the effective subsidiary, and (ii) the ability of the effective parent to determine decisions made by the effective subsidiary is provided for by the charter of the subsidiary or in a contract between the parties. An effective parent may be held secondarily liable for an effective subsidiary's debts in the event of its insolvency or bankruptcy. If the effective subsidiary is a joint stock company, the effective parent will have secondary liability if (i) the effective subsidiary becomes insolvent or bankrupt as a result of the actions of such effective parent; and (ii) such effective parent knew that such actions would result in the insolvency or bankruptcy of the effective subsidiary.

Shareholders (other than the effective parent) of an effective subsidiary that is a joint stock company may claim compensation for the effective subsidiary's losses from the effective parent if (i) the effective parent caused the effective subsidiary to do or refrain from doing any act that resulted in loss, and (ii) the effective parent knew that such act or omission would result in loss.

Shareholders Agreements

In June 2009, the Joint Stock Companies Law was amended to expressly permit shareholders' agreements (the "SHA") in respect of Russian joint stock companies. Under the Joint Stock Companies Law, an SHA is an agreement on how to exercise the rights associated with shares and/or the rights to shares. The Joint Stock Companies Law provides that parties to the SHA may agree to assume the following obligations:

- to exercise the rights associated with shares in a particular way;
- to refrain from exercising their shareholders' rights;
- to vote in a way specified by the SHA or to coordinate voting;
- to acquire or dispose of shares at a pre-determined price and/or at the occurrence of a triggering event;

- not to sell shares until a triggering event occurs; or
- to act in an agreed way on other matters relating to the management, operations, reorganisation and/or liquidation of the company.

At the same time the Joint Stock Companies Law stipulates that parties to the SHA may not:

- assume an obligation to vote at the general shareholders' meeting, as directed by the board of directors, the management board or the sole executive body of the company; or
- agree to exercise rights or assume obligations only in relation to some but not all of the shares they own.

The SHA must be made as a single written document executed by the parties. Shareholders arrangements included in the SHA do not affect the rights of third parties, unless it is proven that the third party knew or ought to have known about any limitations imposed by the SHA. Breach of the SHA provisions in relation to voting arrangements at the general meeting of shareholders will not invalidate a decision otherwise properly taken in accordance with the requirements of Russian corporate law. Remedies available to the innocent party enforcing the SHA include damages, penalties and pre-determined compensation. The Joint Stock Companies Law imposes an obligation on the company to keep records on the conclusion of SHAs as well as lists of the parties that have entered into SHAs if such SHAs are disclosed to Gazprom in accordance with the Joint Stock Companies Law. The company is also obliged to send this information to its shareholders prior to the annual general shareholders' meeting (but only in relation to SHAs concluded in the year prior to the annual general shareholders' meeting). Provisions of the Joint Stock Companies Law in respect of SHA are very generic and have been largely untested. It remains to be seen how this new regulation is implemented and enforced in practice. To our knowledge, no shareholders agreements in respect of Gazprom's shares exist as of the date of this Prospectus.

Share Capital Increase

A company's share capital may be increased by:

- issuing new shares, or
- increasing the nominal value of previously issued outstanding shares.

A decision on any issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of common shares or securities convertible into common shares constituting more than 25 percent of the number of issued ordinary shares, requires a three-quarters majority vote of a general meeting of shareholders. A decision to increase the charter capital by increasing the nominal value of issued shares requires a majority vote of a general meeting of shareholders. In addition, the issuance of shares above the number of authorised and non-issued shares provided in Gazprom's charter necessitates a charter amendment, which requires a three-quarters majority vote of a general meeting of shareholders. Currently, Gazprom's charter does not provide for any authorised shares. Accordingly, any new share issuance by Gazprom would require a charter amendment.

The Joint Stock Companies Law requires that the value of newly issued shares be determined by the board of directors based on their market value but not less than their nominal value, except in limited circumstances where: (1) existing shareholders exercise a pre-emptive right to purchase shares at not less than 90 percent of the price paid by third parties, or (2) fees of up to 10 percent are paid to intermediaries, in which case the fees paid may be deducted from the price. The price may not be set at less than the nominal value of the shares. The board of directors shall value any in-kind contributions for new shares, based on the appraisal report of an independent appraiser.

The Securities Market Law and securities regulations set out detailed procedures for the registration and issue of shares of a joint stock company, including:

- the adoption of a decision on an increase of share capital by placement of additional shares;
- the adoption of a decision on a share issuance;
- the registration of a share issuance with the FSFM;
- the placement of the shares;
- the registration of the report or filing of the notification of the results of the share issuance; and
- public disclosure of information at the required stages of the issuance.

Share Capital Decrease; Share Buy-Backs

Gazprom has the right and under certain circumstances is required by law, to reduce its share capital. The Joint Stock Companies Law does not allow a company to reduce its share capital below the statutory minimum level which for an open joint stock company is RR100,000. A company can decrease its share capital through a reduction of the number of shares either by repurchase and cancellation or through a reduction of the nominal value of the shares. A decision to reduce Gazprom's share capital through a reduction in the nominal value of shares has to be made by a three-quarters majority vote at a general shareholders' meeting and upon the proposal of such action by the board of directors. In all other cases, the decision to reduce a company's share capital may be taken by a majority vote of shareholders. Within three business days from adoption of a decision to reduce the share capital, a company must notify the tax authorities and publish two notices, one within 3 days of the date of a decision on reduction of the share capital, and the second 30 days after the publication of the first notice. The notices must be published on the webpage of the Federal Tax Service and in the periodical publication designated by applicable Russian regulations. A company's creditors would then have the right to demand, within 30 days of the latest publication, repayment of all amounts due to them, or, if repayment is not possible, termination of the relevant obligation, as well as compensation for damages. The statute of limitations for filing a suit is six months after the date of the last publication of the notice. The Joint Stock Companies Law allows a company to decrease its share capital only if the following conditions have been met:

- the company's share capital has been paid up in full;
- the value of the company's net assets calculated under RAS, on the date of adoption or the decision to decrease the share capital is not less (and would not become less as a result of the proposed decrease of share capital) than the amount of the company's share capital, the reserve fund and the difference between the liquidation value and the nominal value of the company's issued and outstanding preferred shares, if any;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase;
- the company is not insolvent on the date of adoption or the decision to decrease the share capital, and will not become, insolvent as a result of the proposed decrease of share capital;
- all declared, but unpaid dividends are paid in full; and
- in other cases provided by law.

Russian law provides that shareholders may demand repurchase of their shares if they voted against, or did not participate in, the voting on any of the following matters:

- reorganisation of the company;
- any amendment to the charter or approval of a new version of the charter which limits the rights of shareholders; or
- entering into a major transaction involving assets in excess of 50 percent of the balance sheet value of the assets of the company.

A company must repurchase the shares at the price established by the board of directors, which shall not be less than the market value determined by an independent appraiser. A company may spend up to 10 percent of its net assets calculated under RAS for a share redemption demanded by the shareholders. If the value

of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10 percent of the company's net assets, the company will repurchase shares from each such shareholder on a pro rata basis.

Conversion Provisions

Gazprom has not adopted any conversion provisions.

Registration and Transfer of Shares

Russian law requires that a joint stock company maintain a register of its shareholders. A register of shareholders may be maintained by a company or by a specialised registrar. The Joint Stock Companies Law requires that a register of shareholders of a joint stock company with more than 50 shareholders be maintained by a specialised registrar. Ownership of registered shares is evidenced by entries made in such register. Shareholders may obtain extracts from such share register certifying the number of ordinary shares that they hold. CJSC "SR-DRAGa" is Gazprom's registrar.

The purchase, sale or other transfer of shares is accomplished through registration of the transfer in the share register, or the registration of the transfer with a depositary if shares are held by a depositary. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register or with a depositary. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed except in certain instances provided for by Russian legislation, and may be challenged in court. Transfer of shares in a company which is a strategic enterprise is subject to certain restrictions as described in "*—Strategic Enterprise*" below. As of the date of this Prospectus, Gazprom is considered to be a strategic enterprise.

Disclosure of Information

Russian securities regulations require Gazprom to make the following public disclosures and filings on a periodical basis:

- filing quarterly reports with the FSFM containing information about Gazprom, its shareholders, management bodies, directors, branches and representative offices, ordinary shares, working capital, bank accounts and auditors, important developments during the reporting quarter, quarterly accounting reports prepared in accordance with RAS and other information about Gazprom's financial and business activities and disclosing the same information on Gazprom's website on a same-time basis as required by applicable securities regulations;
- filing with the FSFM and publishing on a newswire (Interfax) and on Gazprom's website, as well as in certain cases publishing in a periodical publication, any information concerning material facts and changes in Gazprom's financial and business activities, including, among other things:
 - reorganisation;
 - certain changes in the amount of our assets;
 - certain facts related to share issuances;
 - certain changes in ownership and shareholding;
 - certain resolutions of the general shareholders' meeting and the Board of Directors; and
 - inclusion in its shareholders' register of a shareholder that has acquired 5% or more of Gazprom's issued ordinary shares and any circumstance which resulted in a change in the quantity of Gazprom's issued ordinary shares held by such shareholder above or below 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold.
- disclosing Gazprom's charter, by-laws and internal governance documents on the Gazprom's website;
- disclosing information on any of the following documents Gazprom has received:
 - a voluntary public offer (including any competing offer);

- a mandatory public offer (including any competing offer);
- a notice of the right of shareholders to sell their shares to the person that has acquired more than 95% of Gazprom's ordinary shares;
- a request that minority shareholders sell their shares to the person that has acquired more than 95% of Gazprom's ordinary shares;
- disclosing information on various stages of the share issuance, registration and placement through publication of certain data, as required by applicable securities regulations;
- publishing Gazprom's annual report and annual financial statements prepared in accordance with RAS together with an audit opinion as well as Gazprom's annual and interim IFRS financial statements together with an audit opinion in cases required by applicable securities regulations;
- disclosing on a quarterly basis a list of Gazprom's affiliated persons on Gazprom's website and publishing in a newswire a notice about disclosure of the list of affiliated persons on Gazprom's website; and
- disclosing other information, as required by applicable Russian securities law.

Change of Control

We are currently unaware of any arrangement which could result in a change in control of Gazprom.

Reserve and Other Funds

Russian law requires each joint stock company to establish a reserve fund to be used to cover the company's losses, redeem the company's bonds and repurchase the company's shares if other funds are unavailable. Such reserve funds may not be used for any other purposes. Gazprom's charter provides for a reserve fund in the amount of 7.3% of its charter capital, funded through mandatory annual transfers of 7.3% of our statutory net profits until the reserve fund has reached the required 7.3%.

Corporate Governance

Overview

Gazprom's charter and other by-laws regulations set out various matters relating to Gazprom's corporate governance structure. Gazprom complies with corporate governance regime in Russia, including mandatory standards of the Joint Stock Companies Law, and securities regulations.

Gazprom's governing bodies, which are responsible for the management of Gazprom include:

- the general meeting of shareholders;
- the Board of Directors;
- the Management Committee; and
- the Chairman of the Management Committee (CEO).

General Meeting of Shareholders

Authority

The powers of the general meeting of shareholders are set forth in the Joint Stock Companies Law and Gazprom's charter. A shareholders' meeting cannot take decisions on the issues that are beyond the scope of its authority, as provided under the Joint Stock Companies Law. Among the issues that the shareholders have the exclusive power to decide are:

- amendments to Gazprom's charter and approval of a new version of the charter;
- reorganisation of Gazprom as provided for by law;
- liquidation of Gazprom, appointing a liquidation commission and approval of an interim balance sheet and the final liquidation balance sheets;
- determining the quantity, face value, class (type) of authorised shares and the rights conferred by such shares;
- increasing and decreasing the size of Gazprom's share capital;
- division and consolidation of shares;
- taking a decision on the placement of bonds convertible into shares or any other securities convertible into shares;
- electing directors and terminating their powers prior to the expiration of their term;
- election of Gazprom's Audit Commission and termination of its powers;
- approval of Gazprom's auditor;
- approval of Gazprom's annual reports and annual accounting reporting, including the profit and loss statements (accounts of profits and losses), and also the distribution of the profit (including the payment (announcement) of Gazprom's dividends, save for the profits distributed as dividends as a result of the first quarter, six and nine months of the financial year) and Gazprom's losses according to the results of the financial year;
- payment of dividends based on the results of the financial year;
- approving "interested party transactions" and "major transactions", if they fall within the authority of the general meeting of shareholders pursuant to the Joint Stock Companies Law;
- approval of internal documents governing the operation of our management bodies; and
- certain other issues set out in the Joint Stock Companies Law.

Unless otherwise provided for by the Joint Stock Companies Law, the Chairman of the Management Committee, the Management Committee or the Board of Directors cannot decide on issues that fall within the authority of the general shareholders' meeting. Voting at a general shareholders' meeting is typically based on the one vote per ordinary share principle, with the exception of the election of the board of directors, which is conducted through cumulative voting. Decisions are generally passed by a majority vote of the voting shares present at a general shareholders' meeting. However, Russian law requires a three-quarters majority vote of the voting shares present at a general shareholders' meeting to approve amendments to the charter, reorganisation or liquidation, appointment of the liquidation commission and approval of interim and final liquidation balances, major transactions with the value of over 50 percent of the balance sheet value of the company's assets and certain other issues.

The quorum requirement for the shareholders meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the quorum requirement is not met, another shareholders' meeting with the same agenda may (and, in the case of an annual meeting, must) be scheduled and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual shareholders' meeting must be convened by the board of directors and be held between March 1 and June 30 of each year, and the agenda must include the following items: election of the members of the board of directors and review commission; approval of the annual report and annual financial statements, including the balance sheet and profit and loss statement; approval of distribution of profits, including approval of annual dividends and losses, if any; and appointment of an independent auditor.

Extraordinary shareholders' meetings may be called either by the board of directors on its own initiative, or at the request of the Audit Commission, the independent auditor of the statutory accounts or a

shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

Notice and participation

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in person or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if it is an extraordinary shareholders' meeting to elect the board of directors or to approve any reorganisation in the form of a merger, spin-off or demerger, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that are set out in the statutory notice sent to shareholders may be considered at a general shareholders' meeting.

The list of shareholders entitled to participate in a general shareholders' meeting is to be compiled according to the register of shareholders on the date specified by the board of directors. The date for the compilation of the list of shareholders entitled to participate in a general shareholders' meeting may not be earlier than the date of adopting the resolution to hold such general shareholders' meeting, and no more than 50 days before the date of the meeting. In the case of an extraordinary general shareholders' meeting to elect the board of directors, not more than 85 days before the date of the meeting. In the event that the shareholders are participating in the meeting by submitting a written ballot reflecting the shareholder's vote on the agenda items, the list of shareholders entitled to take part in such meeting should be prepared at least 35 days prior to the date of such meeting.

The right to participate in a general meeting of shareholders may be exercised by a shareholder as follows:

- by personally participating in the discussion of agenda items and voting thereon;
- by sending an authorised representative to participate in the discussion of agenda items and to vote thereon;
- by submitting a written ballot reflecting the shareholder's voting on the agenda items; or
- by delegating the right to submit such written ballot to an authorised representative.

Board of Directors

Pursuant to the Joint Stock Companies Law and Gazprom's charter, the Board of Directors must be elected at each annual general meeting of shareholders through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of voting shares held by such shareholder multiplied by the number of persons to be elected to the board of directors. Such shareholder may cast all such votes for one candidate or distribute them among multiple candidates. A general meeting of shareholders may remove the whole Board of Directors by majority vote at any time without cause before the expiration of their term and elect a new Board of Directors. The Joint Stock Companies Law requires at least a five-member board of directors for an open joint stock company with less than 1,000 holders of ordinary shares, a seven-member board of directors for an open joint stock company with more than 1,000 holders of ordinary shares and a nine-member board of directors for an open joint stock company with more than 10,000 holders of ordinary share. The Board of Directors now consists of eleven directors, including one Director considered to be independent under FSFM standards. Only individuals may serve on the board of directors of an open joint stock company. See "Management of Gazprom". A meeting of the Board of Directors has a quorum if no less than a half of the directors are present. Generally, a majority vote of the directors present at the meeting is required to adopt a decision. Certain decisions (e.g., approvals of major transactions) require the unanimous vote of all directors or a majority vote of the disinterested and independent directors (in case of approving the interested party transactions).

Pursuant to Russian law and Gazprom's charter, the Board of Directors is responsible for Gazprom's general management, except for the adoption of decisions that fall within the exclusive authority of the general meeting of shareholders. The Board of Directors has the power to decide, among others, the following issues:

- setting out priority guidelines for our development;
- calling general and extraordinary meetings of shareholders (save for the cases when such right belongs to the shareholders or other persons/bodies) and determining the date of the meeting;
- approving the agenda of the general meeting of shareholders;
- specifying the record date for determining eligible shareholders to attend, as well as resolving other issues in relation to preparation of such meeting;
- making recommendations to the general meeting of the shareholders regarding the amount of any dividend to be declared, the procedure for its payment and proposing certain other issues for consideration of the general meeting of the shareholders (as provided for by Gazprom's charter);
- deciding an issue of bonds and other securities, except as otherwise is provided by Joint Stock Companies Law and Gazprom's charter, and approval of the documents in relation to securities as required by law;
- approving the decision of issue of shares and the prospectus of emission of shares;
- determining the price (the monetary value) of the assets, offering price and redemption price of securities in cases provided for by Joint Stock Companies Law and Gazprom's charter;
- purchasing Gazprom's previously placed shares, bonds and other securities, in cases provided for in the Joint Stock Companies Law;
- selling Gazprom's shares acquired by it in the process of share redemption or purchase from the shareholders;
- electing the Chairman of the Management Committee and early termination of his/her powers;
- electing the Management Committee and early termination of its powers;
- making recommendations to the general meeting of shareholders on the amount of remuneration and compensation of the Audit Commission as well as the external auditor;
- approving Gazprom's by-law relating to the procedure for establishment and use of Gazprom's funds;
- approving internal documents, except for those documents whose approval falls within the authority of the general meeting of shareholders or executive bodies;
- establishing Gazprom's branches and opening representative offices or liquidation thereof;
- making a decision of participation of Gazprom in other companies and termination of Gazprom's participation in such companies;
- approving "major transactions" and "interested party transactions" if they fall within the Board of Directors' authority pursuant to the Joint Stock Companies Law;
- approval of Gazprom's registrar, including the terms of the contract with the registrar and termination of such contract;
- approval of the procedure for making transactions;
- approval of the procedure for the management of Gazprom's subsidiaries and making decisions relating to such management that are within the authority of the Board of Directors;
- electing the Chairman of the Board of Directors;
- establishing the committees of the Board of Directors and approval of regulations thereof;
- approving of an independent appraiser to determine the value of shares, property or other Company's assets in cases provided for by the Joint Stock Companies Law and Gazprom's charter; and
- other issues, as provided by the Joint Stock Companies Law and Gazprom's charter.

Chairman of the Management Committee (CEO) and Management Committee

Pursuant to Russian law and Gazprom's charter, Gazprom's day-to-day activities are managed by the Chairman of the Management Committee, who is Gazprom's sole executive body, and the Management Committee, which is Gazprom's collective executive body.

According to Gazprom's charter, the Chairman of the Management Committee is elected by the Board of Directors. The Chairman of the Management Committee reports to the Board of Directors and the general meeting of shareholders. The term in office of the Chairman of the Management Committee is established by a contract with the him/her and is currently 5 years. The Board of Directors may, however, terminate the powers of the Chairman of the Management Committee at any time and elect a new Chairman of the Management Committee.

Mr. Alexey Miller was appointed as Gazprom's Chairman of the Management Committee in 2001. For his detailed biography see "Management of Gazprom". All of Gazprom's activities in the ordinary course of business are within the authority of the Chairman of the Management Committee, except for the matters which are subject to the approval of a general meeting of shareholders or the Board of Directors. The Chairman of the Management Committee arranges for the implementation of the resolutions of the general meeting of shareholders and the Board of Directors. Among others, the Chairman of the Management Committee is entitled to:

- issue powers of attorney;
- enter into the transactions and sign documents on behalf of Gazprom, except for the cases specified under the Joint Stock Companies Law;
- issue orders and instructions binding for all employees;
- approve Gazprom's internal regulations except for the internal regulations that shall be approved by the Board of Directors and the general shareholders' meeting of Gazprom; and
- perform any other management functions subject to limitations under the Joint Stock Companies Law, Gazprom's charter and the contract with the Chairman of the Management Committee.

Management Committee

The Management Committee is Gazprom's collective executive body responsible for its day-to-day management. The activities of the management board are governed by the Joint Stock Companies Law, the Charter of Gazprom and Regulation on the Management Committee approved by the general shareholders meeting in June 2002, as amended in June 2008. The Board of Directors elects the members of the Management Committee for the term of five years. The responsibilities of the Management Committee include, among other things:

- preparation of the current and future development plans of Gazprom for the Board of Directors, including Gazprom's annual budget and investment programmes, and reports regarding their fulfilment;
- organisation of the gas flows, gas transportation and control over the UGSS;
- approval of the internal gas prices and internal gas transportation tariffs;
- organisation of control over performance of the current and future development plans of Gazprom, realisation of investment, financial and other projects of Gazprom;
- approval of the rules ensuring the timely and accurate preparation of Gazprom's financial statements and timely filing of its annual report and other documents with the relevant state authorities;

- approval of the procedure for the provision of information on Gazprom to its shareholders;
- approval of Gazprom's internal regulations in the area of the Management Committee's authority; and
- making decisions on other matters of the day-to-day activity of Gazprom put for consideration of the Management Committee by the Chairman of the Management Committee.

The Internal Regulations on the Management Committee provides that decisions of the Management Committee require a majority vote of members who are present, provided that a majority of elected members are present at the meeting. If the number of the members of the Management Committee does not constitute the required quorum, the Board of Directors is obliged to elect a new Management Committee.

CERTAIN TRANSACTIONS

Interested Party Transactions under Russian Law

The Joint Stock Companies Law contains requirements in respect of transactions with interested parties. An interested party is a member of the board of directors, a person performing functions of the sole executive body (e.g., the Chairman of the Management Committee), a member of the collective executive body (e.g., the Management Committee) or a shareholder, who owns, together with any of its affiliates, at least 20% of the company's voting shares, or any person who has the rights to issue mandatory instructions to the company. If any of the abovementioned persons and/or any of these persons' spouse, parents, children, adoptive parents or children, brothers or sisters or their affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively, at least 20% of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or holds offices in any of the company's management bodies (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; and
- in other cases, provided by Russian law, they will be considered an interested party.

The Joint Stock Companies Law requires that an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

For the companies with more than 1,000 shareholders an interested party transaction must be approved by a majority vote of the independent directors of the company (defined as those who are not interested in the transaction). For the purposes of this rule, an "independent director" is a member of the Board of Directors who is not, and within the year preceding the decision to approve the transaction was not:

- a member of any executive body; or
- a member of any management body of the company's management organisation; or
- a person whose relatives held positions on management bodies of a company or the managing company or were sole manager of such company; or
- an affiliate of the company except for being its director.

An interested party transaction must be approved by a decision of the majority of disinterested shareholders holding voting shares, if:

- the value of such a transaction, or series of related transactions, is two percent or more of the balance sheet value of the company's assets as at the last reporting date;
- the transaction, or series of interrelated transactions, involves the issuance by subscription or disposal of, ordinary shares in the amount exceeding two percent of the earlier issued existing ordinary shares or securities convertible into such shares;
- the transaction, or series of related transactions, involves the issuance by subscription of securities convertible into shares, which may be converted into ordinary shares, in the amount exceeding two percent of the earlier issued existing ordinary shares or ordinary shares into which the above-mentioned convertible securities may be converted;
- all members of the board of directors are interested parties, and/or none of them is an independent director; or

- the number of the disinterested directors is not sufficient to constitute a quorum.

The approval of interested party transactions of an open joint stock company is not required if:

- the company has only one shareholder that simultaneously performs the functions of the executive body of a company;
- all shareholders are interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares;
- the company is re-purchasing its issued shares;
- the company is merging with or into another company; or
- the company is required by the federal legislation to enter into the transaction, and settlements under such transactions are made pursuant to fixed tariffs and prices established by the competent state authorities.

Any interested party transaction must be approved prior to its execution. An interested party transaction entered into in breach of the above-mentioned rules may be invalidated by a court pursuant to an action of a company or any of its shareholders only if the other party to the transaction knew or should have known of its interested party nature and if the transaction resulted in losses to the company or a shareholder. The interested party is liable to a company for any loss incurred by the company. Currently, Gazprom enters into many interested party transactions approved by the Board of Directors or a general meeting of shareholders, as provided for by the Joint Stock Companies Law.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction, or a series of interrelated transactions, involving the acquisition or disposal, or the possibility of disposal of property having the value of 25% or more of the balance sheet value of the assets of a company as determined under RAS, with the exception of transactions conducted in the ordinary course of business or transactions in connection with the placement of ordinary shares through a subscription (sale of ordinary shares), or with the placement of securities convertible into ordinary shares. Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority vote of a shareholders meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company require a three-quarters majority vote of shareholders present at the general shareholders' meeting.

Any major transaction entered into in breach of the above requirements may be invalidated by a court pursuant to a claim by a company or any of its shareholders.

Approval of the Russian Antimonopoly Authorities

The Federal Law No. 135-FZ "On Protection of Competition" dated 26 July 2006, which came into effect on 26 October 2006 (the "Competition Law") provides for a mandatory pre-approval by FAS of the following transactions:

- an acquisition by a person (or its group) of more than 25% of the voting shares of a joint stock company (1/3 participation interest in a limited liability company) and the subsequent increase of these shares up to more than 50% and more than 75% of the voting shares (1/2 and 2/3 participation interest in a limited liability company); or
- acquisition by a person (or its group) of the core production assets (with certain exceptions) and/or intangible assets of an entity if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity; or

- obtaining rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body by a person (or its group),

if any of the following thresholds are met:

- (i) aggregate asset value of an acquirer (and its group) together with a target (and its group) exceeds RR7 billion and the total asset value of the target (its group) exceeds RR250 million; or
- (ii) the total annual revenues of an acquirer (and its group) and the target (and its group) for the preceding calendar year exceed RR10 billion and the total asset value of the target (its group) exceeds RR250 million; or
- (iii) if an acquirer, and/or a target, or any entity within the acquirer's group or a target's group are included in the register of entities having a market share in excess of 35% on a particular commodity market or having a dominant position on a particular commodity market maintained by the FAS.

The Competition Law stipulates certain carve-outs from this rule providing for post-transactional notification instead of FAS pre-approval. The Competition Law provides for a mandatory post-transactional notification (within 45 days of the closing) to FAS in connection with the transactions specified above, the aggregate asset value or total annual revenues of an acquirer (its group) and a target (its group) for the preceding calendar year exceeds RR400 million and the total asset value of the target (its group) exceeds RR60 million.

Furthermore, the Competition Law provides for a mandatory pre-approval by the FAS of the following actions:

- mergers and consolidations of entities, if any the following thresholds are met:
 - (i) their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds RR3 billion;
 - (ii) total annual revenues of such entities (groups of persons to which they belong) for the preceding calendar year exceed RR6 billion; or
 - (iii) if one of these entities is included into the register of entities having a market share in excess of 35% on a particular commodity market or having a dominant position on a particular commodity market maintained by the FAS; or
- foundation of an entity, if any the following thresholds are met:
 - (i) its charter capital is paid by the shares (participation interest) and/or the assets of another entity or the newly founded entity acquires the rights in respect of such shares (participation interest) and/or assets as specified in the Competition Law provided that the aggregate asset value of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) which shares (participation interest) and/or assets are contributed to the charter capital of the newly founded entity exceeds RR7 billion;
 - (ii) total annual revenues of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) which shares (participation interest) and/or assets are contributed to the charter capital of the newly founded entity for the preceding calendar year exceed RR10 billion; or
 - (iii) if an entity whose shares (participation interest) and/or assets are contributed to the charter capital of the newly founded entity is included in the register of entities having a market share in excess of 35% on a particular commodity market or having a dominant position on a particular commodity market maintained by the FAS.

The Competition Law expressly provides for its extraterritorial application to transactions which are made outside of Russia but lead, or may lead, to the restriction of competition in Russia and relate to assets located on the territory of Russia or to the shares (participation interests) in Russian companies or rights in relation to such companies.

Currency Control

Russian currency control restrictions with regard to such instruments as ordinary shares are set forth in the Currency Law and respective regulations of the CBR.

Pursuant to the Currency Law, currency operations with ordinary shares between residents and non-residents may be conducted without limitations in both rubles and in foreign currencies.

Under the Currency Law, currency operations with ordinary shares between non-residents may be conducted either in rubles or in foreign currencies without limitations, subject to compliance with Russian securities and antimonopoly laws and regulations.

Non-residents may receive dividends declared by Russian companies both in foreign currencies (confirmed by the CBR in its Information Letter No. 31, of 31 March 2005) and rubles. Dividends declared and paid in rubles may be freely converted through Russian authorised banks and remitted outside of Russia. There can be no assurance that this letter will not be reversed in the future. If Russian companies were again required to pay all dividends on ordinary shares in rubles, current Russian legislation permits such rubles funds to be converted into U.S.\$.

The ability to convert rubles into U.S.\$ is also subject to the availability of U.S.\$ in Russia's currency market. Although there is an existing, albeit limited, market within Russia for the conversion of rubles into U.S.\$, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge rubles and rouble-denominated investments.

Notification of Acquisition of Certain Thresholds

Pursuant to Russian securities legislation, each holder of ordinary shares must notify us and the FSFM of acquisition of 5% or more of Gazprom's ordinary shares and any subsequent change in the number of the ordinary shares above or below 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold. Each notification should contain the name of the shareholder, Gazprom's name, the state registration number of the ordinary shares issuance and the number of the ordinary shares acquired. As a general rule, such notifications must be given within five days after the ordinary shares have been transferred to such shareholder's securities account.

Notification of Foreign Ownership

Foreign persons and foreign companies that acquire shares in a Russian joint stock company, regardless of whether they are registered with the Russian tax authorities, may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign persons that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to the foreign ownership of the ordinary shares.

Related Party Transactions Under IFRS

For the purposes of our consolidated financial statements and consolidated interim condensed 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". The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as of March 31, 2011, and December 31, 2010 and 2009 are described below. For further information about our significant transactions and balances with related parties, please see Note 25 to our consolidated interim condensed financial information for the three months ended March 31, 2011 and Note 41 to our consolidated financial statements for the year ended December 31, 2010.

Government

The Government of the Russian Federation has an interest of over 50% in Gazprom and is the ultimate controlling party of the Group. In the normal course of business the Group enters into transactions with other entities under the Government's control, such as Transneft and certain Russian oil companies and banks. Prices of natural gas sales and electricity tariffs in Russia are regulated by the Federal Tariffs Service. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation. In the three months ended March 31, 2011 and March 31, 2010, transactions with the Government and entities under the Government's control resulted in income of approximately RR75 billion and RR65 billion and expenses of approximately RR251 billion and RR164 billion, respectively. In the years ended December 31, 2010 and 2009, these transactions resulted in revenues of approximately RR195 billion and RR139 billion, respectively, and expenses of RR649 billion and RR526 billion, respectively. These expenses include current tax on profits, compulsory insurance contributions into extra-budgetary funds (prior to January 1, 2010, this was known as unified social tax), other taxes, accrued interests, and expenses relating to oil transportation.

Associated undertakings and jointly controlled entities

The Group's transactions with associated undertakings and jointly controlled companies occur in the ordinary course of business and include the sale and purchase of gas, gas condensate, crude oil and refined products, as well as gas transportation services and refining. Such companies include, but are not limited to, OAO Beltransgaz, WIEH, ZAO Panrusgaz, WINGAS, WIEE, AO Gazum and SGT EuRoPol GAZ S.A. In the three months ended March 31, 2011 and 2010 and the years ended December 31, 2010 and 2009, these transactions resulted in revenues of approximately RR174 billion, RR159 billion, RR581 billion and RR527 billion, respectively, and expenses of approximately RR187 billion, RR70 billion, RR287 billion and RR255 billion, respectively.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, for the years ended December 31, 2010 and 2009 were approximately RR1.6 billion and RR1.4 billion, respectively.

DESCRIPTION OF THE ADSs

Defined terms used in this section which are not defined in this Prospectus shall have the meanings ascribed to them in the Level I Deposit Agreement and the Rule 144A Deposit Agreement, as applicable.

The following is a summary of the material provisions of the Rule 144A Deposit Agreement (the "Rule 144A Deposit Agreement") dated as of October 25, 1996, among Gazprom, the Depositary and the Owners and Beneficial Owners (as defined in the Rule 144A Deposit Agreement) from time to time of Rule 144A ADSs, pursuant to which the Rule 144A ADSs were issued, and the Deposit Agreement (the "Level I Deposit Agreement" and, together with the Rule 144A Deposit Agreement, the "Deposit Agreements") dated as of October 25, 1996, as amended and restated as of April 17, 2006, and as further amended by a supplemental agreement dated April 21, 2011, among Gazprom, the Depositary and the Owners and Beneficial Owners (as defined in the Level I Deposit Agreement) from time to time of Level I ADSs, pursuant to which the Level I ADSs were issued. This summary of the material provisions is provided for informational purposes only, by its nature lacks the precision of the information summarised. The rights and obligations of an owner of ADSs will be determined by reference to the applicable Deposit Agreements, including the form of Rule 144A ADRs and Level I ADRs, and not by this summary. Terms used in this description and not otherwise defined shall have the meanings set forth in the Deposit Agreements. Copies of the Deposit Agreements will be available for inspection at the Corporate Trust office of the Depositary, currently located at 101 Barclay Street, New York, New York 10286, and at the registered office of Gazprom. The Depositary's principal executive office is located at One Wall Street, New York, New York 10286. Unless the context otherwise requires, references herein to ADSs shall apply equally to the Rule 144A ADSs and the Level I ADSs.

The ADSs

Rule 144A ADRs evidencing Rule 144A ADSs are issuable pursuant to the Rule 144A Deposit Agreement. Level I ADRs evidencing Level I ADSs are issuable by the Depositary pursuant to the Level I Deposit Agreement. Each Rule 144A ADR will evidence a specified number of Rule 144A ADSs, each Rule 144A ADS representing ten Shares deposited with the Custodian and registered in the name of the Depositary or its nominee (together with any additional Shares at any time deposited or deemed deposited under the Rule 144A Deposit Agreements and any other securities, cash or other property received by the Depositary or the Custodian in respect of such Shares, the "Rule 144A Deposited Securities"). Each Level I ADR will evidence a specified number of Level I ADSs, each Level I ADS representing two Shares deposited with the Custodian and registered in the name of the Depositary or its nominee (together with any additional Shares at any time deposited or deemed deposited under the Level I Deposit Agreement and any other securities, cash or other property received by the Depositary or the Custodian in respect of such Shares, the "Level I Deposited Securities" and, together with the Rule 144A Deposited Securities, the "Deposited Securities"). Only persons in whose names Rule 144A ADSs or Level I ADSs, as the case may be, are registered on the books of the Depositary will be treated by the Depositary and Gazprom as Owners.

Settlement—Rule 144A ADSs

The Rule 144A ADSs are accepted for settlement through DTC's book-entry settlement system. A global Rule 144A ADR has been issued to DTC and registered in the name of Cede & Co., as nominee of DTC, and is held by the Depositary, as custodian for DTC. Cede & Co. is the holder of record of all the Rule 144A ADSs. Accordingly, each person owning a beneficial interest in the global Rule 144A ADR must rely upon the procedures of the institutions having accounts with DTC to exercise or be entitled to any rights of an Owner. So long as any Rule 144A ADSs are traded through DTC's book-entry settlement system, or unless otherwise required by law, ownership of beneficial interests in the global Rule 144A ADR will be shown on, and the transfer of that ownership will be effected only through, records maintained by (i) DTC or its nominee (with respect to participants' interests) or (ii) institutions that have accounts with DTC.

If DTC ceases to make its book-entry settlement available for the Rule 144A ADSs, Gazprom will consult with the Depositary regarding other arrangements for book-entry settlement. In the event that it is impracticable without undue effort or expense to continue to have the Rule 144A ADSs available in book-entry

form, Gazprom will instruct the Depositary to make separate Rule 144A ADRs available to all Beneficial Owners of Rule 144A ADSs, with such modification to the form of Rule 144A ADRs and the Rule 144A Deposit Agreement as Gazprom and the Depositary may agree, subject to the terms of the Rule 144A Deposit Agreement.

The global Rule 144A ADR is, and any separate Rule 144A ADR will be endorsed with a legend regarding certain restrictions on transfer in substantially the form set forth under "Transfer Restrictions."

Settlement— Level I ADSs

Level I ADSs have been accepted by each of DTC, Euroclear and Clearstream for settlement through their respective book-entry settlement systems. You may hold Level I ADSs either directly (by having a Level I ADR registered in your name) or indirectly through your broker or other financial institution. If you hold Level I ADSs directly, you are an ADR holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADR holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Available Information

Gazprom is exempt from the registration requirements of Section 12(g) of the Exchange Act pursuant to Rule 12g3-2(b) thereunder. If, at any time prior to the termination of the Rule 144A Deposit Agreement, Gazprom is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, Gazprom will provide to any Owner or Beneficial Owner of Rule 144A ADSs or any holder of Shares underlying Rule 144A ADSs, and to any prospective purchaser of Rule 144 ADSs or of Shares underlying Rule 144A ADSs, upon request of any such Owner, Beneficial Owner, holder of Shares or prospective purchaser of ADSs or of Shares, the information required by Rule 144A(d)(4)(i) under the Securities Act and otherwise comply with Rule 144A(d)(4) under the Securities Act.

Deposit, Transfer and Withdrawal—Rule 144A ADSs

Each Owner and Beneficial Owner of a Rule 144A ADR shall be deemed to acknowledge that the Management Committee of Gazprom has instructed the Depositary in writing to accept no Shares for deposit pursuant to the Rule 144A Deposit Agreement other than (i) Shares or other Rule 144A Deposited Securities received by the Depositary as a dividend or free distribution pursuant to the provisions of the Rule 144A Deposit Agreement, (ii) Shares or other Rule 144A Deposited Securities received by the Depositary upon any change in nominal value, change in par value, split-up, consolidation or any other reclassification of Shares, or upon any recapitalisation, reorganisation, merger or consolidation or sale of assets affecting Gazprom pursuant to the provisions of the Rule 144A Deposit Agreement, (iii) Shares or other Rule 144A Deposited Securities that have been withdrawn pursuant to the Level I Deposit Agreement against the surrender of Level I ADSs solely for deposit pursuant to the Rule 144A Deposit Agreement and (iv) as directed by the Management Committee of Gazprom in writing from time to time.

The Depositary has agreed, subject to the provisions of the Rule 144A Deposit Agreement described in the preceding paragraph and the other terms and conditions of the Rule 144A Deposit Agreement and the terms and conditions of the Charter of Gazprom, that upon delivery to the Custodian of Shares (or evidence of rights to receive Shares), accompanied by appropriate instruments of transfer (which may consist of (a) extracts from the Share Register and, where applicable, share certificates evidencing ownership of the Shares, (b) a transfer deed or other similar document authorising registration of the Shares in the name of the Depositary, the Custodian or their respective nominees, or endorsement, in a form satisfactory to the Custodian, and (c) where applicable, a purchase/sale contract or other similar document relating to the transfer of the Shares), the Depositary will, upon payment of the fees, charges and taxes provided in the Rule 144A Deposit Agreement, execute and deliver at its Corporate Trust Office to, or upon the written order of, the person or persons named in the notice of the Custodian delivered to the Depositary or requested by the person depositing such Shares with

the Depositary, a Rule 144A ADR or Rule 144A ADRs, registered in the name or names of such person or persons, and evidencing any authorised number of ADSs requested by such person or persons.

Any deposit of Shares for Rule 144A ADSs must be accompanied by a written certification ("Depositor's Certificate") by or on behalf of the person who will be the beneficial owner of the Rule 144A ADSs to be issued upon deposit of such Shares, to the effect that it (a) is a QIB, acquiring such beneficial ownership for its own account or for the account of one or more QIBs, and (b) will comply with the restrictions set forth under "Transfer Restrictions" on transfers of the Rule 144A ADSs and the Shares represented thereby. The Depositary will refuse to accept Shares for deposit whenever it is notified in writing that such deposit would result in any violation of applicable laws. The Depositary will also comply with written instructions of Gazprom that the Depositary shall not accept for deposit under the Rule 144A Deposit Agreement any Shares identified in such instructions at such times and under such circumstances as may reasonably be specified in such instructions in order to facilitate Gazprom's compliance with the securities laws of the United States. The Depositary will also refuse to accept certain Shares for deposit if notified in writing that the Shares are listed on a U.S. securities exchange or quoted on a U.S. automated inter-dealer quotation system, unless accompanied by evidence satisfactory to the Depositary that any Shares presented for deposit are eligible for resale pursuant to Rule 144A.

Upon surrender at the Corporate Trust Office of the Depositary of a Rule 144A ADR for the purpose of withdrawal of the Deposited Securities represented by the Rule 144A ADSs evidenced by such Rule 144A ADR, accompanied by such documents as the Depositary may require (including a purchase/sale contract relating to the transfer of the Shares), and upon payment of the fees, expenses, governmental charges and taxes provided in the Rule 144A Deposit Agreement, and subject to the terms and conditions of the Rule 144A Deposit Agreement, the Charter of Gazprom and the Rule 144A Deposited Securities, the Owner of such Rule 144A ADR will be entitled to delivery, to him or upon his order, as permitted by applicable law, of the amount of Deposited Securities at the time represented by the Rule 144A ADSs evidenced by such Rule 144A ADR. The forwarding of share certificates or other documents evidencing title (including extracts from the Share Register), other securities, property, cash and other documents of title for such delivery will be at the risk and expense of the Owner.

Notwithstanding the foregoing, no Rule 144A Deposited Securities may be withdrawn in the manner described in the preceding paragraph unless, at or prior to the time of surrender, the Depositary shall have received a written certificate and agreement by or on behalf of the person surrendering such Rule 144A ADR who after withdrawal will be the beneficial owner of the Shares withdrawn, acknowledging that such Shares have not been registered under the Securities Act, certifying as to whether or not such Shares will remain restricted securities within the meaning of Rule 144(a)(3) under the Securities Act upon withdrawal and, in the case of Shares that will remain restricted securities within the meaning of Rule 144(a)(3) under the Securities Act, agreeing (a) not to offer, sell, pledge or otherwise transfer such Shares except in a transaction that complies with the restrictions on transfer set forth under "Transfer Restrictions" and (b) not to deposit or cause to be deposited such Shares into any unrestricted depositary receipt facility established or maintained by a depositary bank (including another facility maintained by the Depositary) relating to such Shares unless such Shares are no longer deemed to be restricted securities within the meaning of Rule 144(a)(3) under the Securities Act. In addition, no Rule 144A Deposited Securities may be withdrawn in the manner described in the preceding paragraph unless, at or prior to the time of surrender, the Depositary shall have received a written certificate by or on behalf of the person surrendering such Rule 144A ADR who after such withdrawal will be the beneficial owner of such Rule 144A Deposited Securities (a) that such person is a resident of Russia at the time of such withdrawal or (b) that (i) such person is not a resident of Russia at the time of such surrender and withdrawal, and (ii) has sold or otherwise transferred, or agreed to sell or otherwise transfer and at or prior to the time of withdrawal will have sold or otherwise transferred, the Rule 144A Deposited Securities to a person that is a resident of Russia at such time.

Neither the Depositary nor the Custodian under the Level I Deposit Agreement, nor any nominee or person acting on their behalf, shall accept Rule 144A ADSs evidencing Rule 144A ADSs issued pursuant to the Rule 144A Deposit Agreement or Shares withdrawn from the Rule 144A Deposit Agreement for the purpose of deposit under the Level I Deposit Agreement, or issue Level I ADSs against delivery thereof, as long as such Rule 144A ADSs, Rule 144A ADSs or Shares are or may be deemed to be restricted securities within the meaning of Rule 144(a)(3) under the Securities Act.

Deposit, Transfer and Withdrawal— Level I ADSs

The Depositary will deliver Level I ADSs if you or your broker deposits shares or evidence of rights to receive shares with the Custodian. Upon payment of its fees and expenses and any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the Depositary will register the appropriate number of Level I ADSs in the names you request and, if applicable, will deliver the ADSs at its office to the persons you request.

You may surrender your Level I ADSs at the Depositary's office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the Depositary will deliver the amount of Shares and any other Deposited Securities underlying the surrendered ADSs to you or a person you designate at the office of the Custodian. Or, at the request, risk and expense, the Depositary will deliver the Deposited Securities at its office, if feasible.

The following description applies equally to the Rule 144A Deposit Agreement and the Level I Deposit Agreement, except as specifically indicated.

Dividends, Other Distributions and Rights

Subject to any restrictions imposed by Russian law, regulations or applicable permits, the Depositary is required to convert or cause to be converted, as promptly as practicable after its receipt thereof, into dollars, to the extent that in its judgement it can do so on a reasonable basis and can transfer the resulting dollars to the United States, all cash dividends and other cash distributions denominated in a currency other than dollars, including rubles ("Foreign Currency"), that it receives into its foreign investment account in the Russian Federation in respect of the deposited Shares, and, after fixing a record date in respect thereof, to distribute, as promptly as practicable, the resulting dollar amount (net of reasonable and customary expenses incurred by the Depositary in converting such Foreign Currency and of the fees of the Depositary) to the Owners entitled thereto, in proportion to the number of ADSs representing such Deposited Securities evidenced by ADSs held by them, respectively. Such distribution may be made upon an averaged or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions or the date of delivery of any ADR or ADSs or otherwise. The amount distributed will be reduced by any amount on account of taxes to be withheld by Gazprom or the Depositary. See "Taxation". If any such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary will file, as promptly as practicable, an application for such approval or licence, but will be entitled to rely on local Russian counsel in such matters. If any Foreign Currency received by the Depositary or the Custodian is not, pursuant to applicable law, convertible in whole or in part, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary cannot be promptly obtained, or if any such approval or licence is not promptly obtained, the Depositary will, (a) as to that portion of the Foreign Currency that is convertible into dollars, make such conversion and, if permitted by applicable law, transfer such dollars to the United States in accordance with the Deposit Agreement and (b) as to the nonconvertible balance, if any, (i) if requested in writing by an Owner, distribute the Foreign Currency received by it to such Owner and (ii) if not so requested by an Owner, hold such Foreign Currency uninvested and without liability for interest thereon for the respective accounts of the Owners entitled to receive the same. If any such conversion of Foreign Currency, in whole or in part, cannot be effected for distribution to some of the Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in U.S. dollars to the extent permissible to the Owners entitled thereto, and may distribute the balance of the Foreign Currency received by it to, or hold such balance uninvested for the respective accounts of, the Owners.

If Gazprom declares a dividend in, or free distribution of, Shares, the Depositary may, and will if Gazprom so requests, distribute, as promptly as practicable, to the Owners of the outstanding ADSs entitled thereto, in proportion to the number of ADSs evidenced by the ADSs held by them, respectively, additional ADSs evidencing an aggregate number of ADSs that represent the amount of Shares received as such dividend or free distribution, subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Shares and the issuance of ADSs evidenced by ADSs, including the withholding of any tax or other governmental charge and the payment of fees of the Depositary. The Depositary may withhold any such distribution of the ADSs if it has not received satisfactory assurances from Gazprom that such distribution does not require registration under the Securities Act or is exempt from registration under the provisions of such Act. In lieu of delivering ADSs for fractional ADSs in the event of any such dividend or free distribution, the

Depository will sell the amount of Shares represented by the aggregate of such fractions and distribute the net proceeds in accordance with the Deposit Agreement, but no such distribution will be unreasonably delayed by any action of the Depository or any of its agents. If additional ADSs are not so distributed, each ADS shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

Each beneficial owner of Rule 144A ADSs or Shares so distributed shall be deemed to have acknowledged that the Shares have not been registered under the Securities Act and to have agreed to comply with the restrictions on transfer set forth under "Transfer Restrictions."

If Gazprom offers or causes to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depository, after consultation with Gazprom to the extent practicable, will have discretion as to the procedure to be followed in making such rights available to any Owners of ADSs or in disposing of such rights for the benefit of any Owners and making the net proceeds available in dollars to such Owners or, if by the terms of such rights offering or for any other reason, the Depository may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depository shall allow the rights to lapse; *provided, however*, if at the time of the offering of any rights the Depository determines in its discretion that it is lawful and feasible to make such rights available to all Owners or to certain Owners but not to other Owners, the Depository may, and at the request of Gazprom will, distribute to any Owner to whom it determines the distribution to be lawful and feasible, in proportion to the number of ADSs held by such Owner, warrants or other instruments therefor in such form as it deems appropriate. If the Depository determines, after consultation with Gazprom to the extent practicable, that it is not lawful and feasible to make such rights available to all or certain Owners, it may, and at the request of Gazprom will use its best efforts that are reasonable under the circumstances to, sell the rights, warrants or other instruments in proportion to the number of ADSs held by the Owners to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of such sales for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any ADR or ADSs, or otherwise. Such proceeds will be distributed as promptly as practicable. The Depository will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner or Owners in particular.

In circumstances in which rights would not otherwise be distributed, if an Owner of ADSs requests the distribution of warrants or other instruments in order to exercise the rights allocable to the ADSs of such Owner, the Depository will promptly make such rights available to such Owner upon written notice from Gazprom to the Depository that (a) Gazprom has elected in its sole discretion to permit such rights to be exercised and (b) such Owner has executed such documents as Gazprom has determined in its sole discretion are reasonably required under applicable law. Upon instruction pursuant to such warrants or other instruments to the Depository from such Owner to exercise such rights, upon payment by such Owner to the Depository for the account of such Owner of an amount equal to the purchase price of the Shares to be received in exercise of the rights, and upon payment of the fees of the Depository as set forth in such warrants or other instruments, the Depository will, on behalf of such Owner, exercise the rights and purchase the Shares, and Gazprom will cause the Shares so purchased to be delivered to the Depository on behalf of such Owner. As agent for such Owner, the Depository will cause the Shares so purchased to be deposited, and will execute and deliver Receipts to such Owner, pursuant to the Deposit Agreement.

The Depository will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act with respect to a distribution to all Owners or are registered under the provisions of such Act. If an Owner of ADSs requests the distribution of warrants or other instruments, notwithstanding that there has been no such registration under such Act, the Depository will not effect such distribution unless it has received an opinion from recognised counsel in the United States for Gazprom upon which the Depository may rely that such distribution to such Owner is exempt from such registration. Notwithstanding any terms of the Deposit Agreement to the contrary, Gazprom will have no obligation to prepare and file a registration statement for any purpose.

Whenever the Depositary shall receive any distribution other than cash, Shares or rights in respect of the Deposited Securities, the Depositary will, as promptly as practicable, cause the securities or property received by it to be distributed to the Owners entitled thereto, after deduction or upon payment of any fees and expenses of the Depositary or any taxes or other governmental charges, in proportion to their holdings, respectively, in any manner that the Depositary may reasonably deem equitable and practicable for accomplishing such distribution; *provided, however*, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners entitled thereto, or if for any other reason (including any requirement that Gazprom or the Depositary withhold an amount on account of taxes or other governmental charges or that such securities must be registered under the Securities Act in order to be distributed) the Depositary reasonably deems such distribution not to be feasible, the Depositary may, after consultation with Gazprom to the extent practicable, adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including the sale (at public or private sale) of the securities or property thus received, or any part thereof, and the net proceeds of any such sale will be distributed by the Depositary to the Owners entitled thereto as in the case of a distribution received in cash, but no such distribution will be unreasonably delayed by any action of the Depositary or any of its agents.

In connection with any distribution to Owners, Gazprom will remit to the appropriate governmental authority or agency all amounts (if any) required to be withheld by Gazprom and owing to such authority or agency by Gazprom; and the Depositary and the Custodian will remit to the appropriate governmental authority or agency all amounts (if any) required to be withheld and owing to such authority or agency by the Depositary or the Custodian. If the Depositary determines that any distribution of property (including Shares and rights to subscribe therefor) or any deposit of Shares, transfer of ADSs or withdrawal of Deposited Securities under the Deposit Agreement is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may dispose of all or a portion of such property in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes or charges, by public or private sale, and the Depositary will distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners entitled thereto in proportion to the number of ADSs held by them, respectively. The Depositary will forward to Gazprom such information from its records as Gazprom may request to enable Gazprom to file necessary reports with governmental authorities or agencies, and either Gazprom or the Depositary may file any such reports necessary to obtain benefits under any applicable tax treaties for Owners.

Upon any change in nominal or par value, split-up, consolidation or any other reclassification of Deposited Securities, or upon any recapitalisation, reorganisation, merger or consolidation or sale of assets affecting Gazprom or to which it is a party, any securities that shall be received by the Depositary or Custodian in exchange for, in conversion of, or in respect of Deposited Securities will be treated as new Deposited Securities under the Deposit Agreement, and the ADSs will thenceforth represent, in addition to the existing Deposited Securities, the right to receive the new Deposited Securities so received in exchange or conversion, unless additional ADSs are delivered pursuant to the following sentence. In any such case, the Depositary may, in its reasonable discretion, after consultation with Gazprom to the extent practicable, and will, if Gazprom so requests, execute and deliver additional ADSs as in the case of a distribution in Shares, or call for the surrender of outstanding ADSs to be exchanged for new ADSs specifically describing such new Deposited Securities.

Record Dates

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each ADS, or whenever the Depositary shall receive notice in English of any meeting of holders of Shares or other Deposited Securities, or whenever the Depositary shall find it necessary or convenient, the Depositary will fix a record date, which date shall be, or be as close as possible to, the record date applicable to the relevant Deposited Securities, (a) for the determination of the Owners who will be, (i) entitled to receive such dividend, distribution or rights, or the net proceeds of the sale thereof, or (ii) entitled to give instructions for the exercise of voting rights at any such meeting, (b) for fixing the date on or after which each ADS will represent the changed number of Shares or (c) for the determination of the Owners who shall be responsible for the fee assessed by the Depositary pursuant to the Deposit Agreement for inspection of the Share Register maintained by the Russian Share Registrar, all subject to the provisions of the Deposit Agreement.

Voting of Deposited Securities

Gazprom will send notice of any meeting or solicitation of consents or proxies in respect of holders of Shares or other Deposited Securities to the Depositary at least 30 Business Days prior to the relevant meeting or, with respect to any solicitation of consents or proxies, any relevant final response date. Upon receipt of such notice, if requested in writing in English by Gazprom, the Depositary will, as soon as practicable thereafter, mail to all Owners a notice containing (a) the information included in such notice of meeting in English received by the Depositary from Gazprom (or if requested by Gazprom, a summary of such information provided by Gazprom in English), (b) a statement that the Owners as of the close of business on a specified record date will be entitled, subject to any applicable provision of the law of the Russian Federation and of the Charter of Gazprom and the provisions of the Deposited Securities, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective ADSs and (c) a statement as to the manner in which such instructions may be given, including an express indication that such instructions may be given or deemed given in accordance with the last sentence of this paragraph if no instruction is received, to the Depositary to give a discretionary proxy to a person designated by Gazprom. Upon the written request of an Owner of a Receipt on such record date, received on or before the record date established by the Depositary for such purpose, the Depositary has agreed that it will endeavour, insofar as practicable and permitted under applicable law, the Charter of Gazprom and the provisions of the Deposited Securities, to vote or cause to be voted the amount of Shares or other Deposited Securities so represented in accordance with any nondiscretionary instructions set forth in such request. There can be no assurance that the Owners generally or any Owner in particular will receive the notice described in this paragraph sufficiently prior to the date established by the Depositary for the receipt of instructions to ensure that the Depositary will in fact receive such instructions on or before such date. The Depositary will not vote or attempt to exercise the right to vote that attaches to the Shares or other Deposited Securities, other than in accordance with such instructions or deemed instructions. If no such instructions are received by the Depositary from an Owner of Rule 144A ADSs on or before the date established by the Depositary for such purpose, the Depositary will deem such Owner to have instructed the Depositary to give a discretionary proxy to a person designated by Gazprom with respect to the Deposited Securities underlying such Owner's Rule 144A ADSs, and the Depositary will give a discretionary proxy to a person designated by Gazprom to vote such Deposited Securities, but no such instruction will be deemed given and no such discretionary proxy will be given with respect to any matter as to which Gazprom informs the Depositary (Gazprom having agreed in the Deposit Agreement to provide such information as promptly as practicable in writing) that (x) Gazprom does not wish such proxy given, (y) substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of Shares.

The Charter of Gazprom provides that any transfer of Shares by any Shareholder to another investor requires the approval of the Management Committee of Gazprom if the transferee would acquire more than 3% of the voting rights in Gazprom as a result of the transfer. The Management Committee of Gazprom may decide in the future to approve the transfer to the Depositary of additional Shares that would result in the Depositary owning more than 3% of the Shares, on the condition that certain provisions are set forth in the Deposit Agreement with respect to the voting of such Shares. Accordingly, the Rule 144A Deposit Agreement provides that the Depositary will not exercise any voting rights on behalf of any Owner with respect to more than 3% of the total voting rights in Gazprom, *provided that*, the Depositary may in its sole discretion, but shall not be required to, seek the consent of the Management Committee of Gazprom, who, in its sole discretion, may approve the voting by the Depositary of more than 3% of the total voting securities of Gazprom, in which case the Depositary may, as practicable, exercise the voting rights granted by the Management Committee of Gazprom. In situations where the approval of the Management Committee has not been obtained and Owners of Rule 144A ADSs together owning more than 3% of the total voting securities of Gazprom have instructed the Depositary to exercise their voting rights, the Depositary will endeavour to prorate such vote such that not more than 3% of the voting securities of Gazprom are voted by the Depositary.

Reports and Other Communications

The Depositary will make available for inspection by Owners at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from Gazprom, which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by Gazprom. The Depositary will also send to the Owners (i) copies of such reports when furnished by Gazprom pursuant to the Deposit Agreement, (ii) copies of any communications provided to the Depositary by the Russian Share Registrar as described under "—Registration of Shares" and (iii)

copies of any notices given or required to be given by the Depositary as described under " —Registration of Shares." All of these reports and communications required to be furnished in English by the London Stock Exchange or otherwise by law will be furnished in English.

Amendment and Termination of the Deposit Agreement

The ADSs and the Deposit Agreement may at any time be amended by agreement between Gazprom and the Depositary without the consent of the Owners or Beneficial Owners of ADSs; *provided, however*, that any amendment that imposes or increases any fees or charges (other than taxes, other governmental charges, delivery and other such expenses), or which otherwise prejudices any substantial existing right of Owners, will not take effect as to outstanding ADSs until the expiration of 30 days after notice of any amendment has been given to the Owners of outstanding ADSs. Every Owner of an ADR at the time any amendment so becomes effective will be deemed by continuing to hold such ADR to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby.

The Depositary shall at any time at the direction of Gazprom terminate the Deposit Agreement by mailing notice of such termination to the Owners of the ADSs then outstanding at least 90 days (or, in the case of the Rule 144A Deposit Agreement, 30 days) prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement by mailing notice of such termination to Gazprom and the Owners of all ADSs then outstanding, such termination to be effective on a date specified in such notice not less than 90 days (or, in the case of the Rule 144A Deposit Agreement, 30 days) after the date thereof, if at any time 90 days (or, in the case of the Rule 144A Deposit Agreement, 30 days) have expired after the Depositary shall have delivered to Gazprom a written notice of its election to resign, a successor depositary shall not have been appointed and accepted its appointment, in accordance with the terms of the Deposit Agreement. If any ADSs remain outstanding after the date of termination of the Deposit Agreement, the Depositary thereafter will discontinue the registration of transfers of ADSs, will suspend the distribution of dividends to the Owners thereof and will not give any further notices or perform any further acts under the Deposit Agreement, except the collection of dividends and other distributions pertaining to the Deposited Securities, the sale of rights and other property and the delivery of underlying Shares, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for surrendered ADSs (after deducting the fees of the Depositary and other expenses set forth in the Deposit Agreement). At any time after the expiration of one year from the date of termination, the Depositary may sell the Deposited Securities then held thereunder and hold uninvested the net proceeds of such sale together with any other cash, unsegregated and without liability for interest, for the pro rata benefit of the Owners that have not theretofore surrendered their Receipts, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary will be discharged from all obligations under the Deposit Agreement, except to account for net proceeds and other cash (after deducting the fees of the Depositary and other expenses set forth in the Deposit Agreement and any applicable taxes or other governmental charges) and certain obligations to Gazprom.

Charges of Depositary

The Depositary will charge any party depositing or withdrawing Shares, any Owner of Receipts or any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by Gazprom or an exchange of stock regarding the ADSs or Deposited Securities or a distribution of ADSs pursuant to the Deposit Agreement) where applicable: (1) taxes and other governmental charges; (2) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share Register of Gazprom maintained by the Russian Share Registrar and applicable to transfers of Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals; (3) such cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreement to be at the expense of persons depositing Shares or Owners; (4) such expenses as are incurred by the Depositary in the conversion of Foreign Currency pursuant to the Deposit Agreement; (5) a fee not in excess of \$5.00 per 100 ADSs (or portion thereof) for the issuance or surrender, respectively, of ADSs pursuant to the Deposit Agreement; (6) a fee not in excess of \$.02 per ADS (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement; (7) a fee of \$.01 or less per ADS (or portion thereof) per year to cover such expenses as are incurred for inspections by the Depositary, the Custodian or their respective agents of the Share Register maintained by the Russian Share Registrar (which fee will be assessed against Owners of record as of the date set by the Depositary in accordance with the Deposit

Agreement not more often than once each calendar year); (8) a fee for the distribution of securities other than Shares or rights pursuant to the Deposit Agreement, such fee being in an amount equal to the fee for the issuance of ADSs referred to above which would have been charged as a result of the deposit by Owners of such securities distributed to them pursuant to the Deposit Agreement (treating all such securities as if they were Shares), but which securities are instead distributed by the Depositary to Owners and (9) a fee not in excess of \$1.50 per certificate for a ADR or ADSs for registrations of transfers made pursuant to the Deposit Agreement.

Liability of Owner for Taxes

If any tax or other governmental charge shall become payable by the Custodian or the Depositary with respect to any ADR or any Deposited Securities represented by the ADSs evidenced by such ADR, such tax or other governmental charge will be payable by the Owner or Beneficial Owner of such ADR to the Depositary, and such Owner or Beneficial Owner will be deemed liable therefor. In addition to any other remedies available to it, the Depositary may refuse to effect any transfer of such ADR or any withdrawal of Deposited Securities underlying such ADR until such payment is made and may withhold any dividends or other distributions or may sell for the account of the Owner thereof any part or all of the Deposited Securities underlying such ADR and may apply such dividends, distributions or the proceeds of any such sale to pay any such tax or other governmental charge and the Owner of such ADR shall remain liable for any deficiency. The obligations of Beneficial Owners described in this paragraph will survive any transfer of ADSs, any surrender of ADSs and withdrawal of Deposited Securities or the termination of the Deposit Agreement.

Disclosure of Interests

To the extent that provisions of or governing any Deposited Securities (including Gazprom's Charter or applicable law) may require the disclosure of beneficial or other ownership of Deposited Securities, other Shares and other securities to Gazprom and may provide for blocking transfer and voting or other rights to enforce such disclosure or limit such ownership, Owners and Beneficial Owners will be required to comply with all such disclosure requirements and ownership limitations and to cooperate with the Depositary's compliance with Gazprom's instructions as to ADSs in respect of any such enforcement or limitation.

The Depositary may from time to time request Owners to provide information as to the capacity in which such Owners own or owned ADSs and regarding the identity of any other persons then or previously interested in such ADSs and the nature of such interest and various other matters. The Deposit Agreements provide that each Owner agrees to provide any information requested by the Depositary pursuant to the Deposit Agreements.

Registration of Shares

Gazprom will, at any time and from time to time: (i) take any and all action as may be necessary to assure the accuracy and completeness of all information set forth in the Share Register maintained by the Russian Share Registrar in respect of the Underlying Shares; (ii) provide or cause the Russian Share Registrar to provide to the Depositary, the Custodian or their respective agents unrestricted access to the Share Register during ordinary business hours in Moscow, Russian Federation, in such manner and upon such terms and conditions as the Depositary may, in its sole discretion, deem appropriate, in order to permit the Depositary, the Custodian or their respective agents to regularly (and in any event not less than monthly) confirm the number of Deposited Securities registered in the name of the Depositary, the Custodian or their respective nominees, as applicable, pursuant to the terms of the Deposit Agreement and, in connection therewith, to provide the Depositary, the Custodian or their respective agents, upon request, with a duplicative extract from the Share Register duly certified by the Russian Share Registrar (or some other evidence of verification which the Depositary, in its sole discretion, deems sufficient); (iii) cause the Russian Share Registrar promptly (and, in any event, within 72 hours of the Russian Share Registrar's receipt of such documentation as may be required by applicable law and the reasonable and customary regulations of the Russian Share Registrar) to effect the re-registration of ownership of Deposited Securities in the Share Register in connection with any deposit or withdrawal of Shares or Deposited Securities under the Deposit Agreement; (iv) permit and cause the Russian Share Registrar to permit the Depositary or the Custodian to register any Shares or other Deposited Securities held under the Deposit Agreement in the name of the Depositary, the Custodian or their respective nominees (which may, but need not be, a non-resident of the Russian Federation); and (v) cause the Russian Share

Registrar promptly to notify the Depositary in writing at any time that the Russian Share Registrar (A) eliminates the name of a shareholder of Gazprom from the Share Register or otherwise alters a shareholder's interest in Gazprom's shares and such shareholder alleges that such elimination or alteration is unlawful; (B) no longer will be able materially to comply with, or has engaged in conduct that indicates it will not materially comply with, the provisions of the Deposit Agreement relating to it; (C) refuses to re-register shares of Gazprom in the name of a particular purchaser and such purchaser (for its respective seller) alleges that such refusal is unlawful; (D) holds shares of Gazprom for its own account; or (E) has materially breached the provisions of the Deposit Agreement relating to it and has failed to cure such breach within a reasonable time.

Gazprom will be solely liable for any act or failure to act on the part of the Russian Share Registrar and will be solely liable for the unavailability of Deposited Securities or for the failure of the Depositary to make any distribution of cash or property with respect thereto as a result of (i) any act or failure to act of Gazprom or its agents, including the Russian Share Registrar, or their respective directors, employees, agents or affiliates, (ii) any provision of any present or future Charter of Gazprom or any other instrument of Gazprom governing the Deposited Securities, or (iii) any provision of any securities issued or distributed by Gazprom, or any offering or distribution thereof.

The Depositary has agreed in the Deposit Agreement for the benefit of Owners and Beneficial Owners that the Depositary or the Custodian will regularly (and in any event not less than monthly) confirm the number of Deposited Securities registered in the name of the Depositary, the Custodian or their respective nominees, as applicable, pursuant to the terms of the Deposit Agreement. Gazprom and the Depositary have agreed in the Deposit Agreement that, for purposes of the rights and obligations under the Deposit Agreement of the parties thereto and hereto, the records of the Depositary and the Custodian shall be controlling for all purposes with respect to the number of Shares or other Deposited Securities which should be registered in the name of the Depositary, the Custodian or their respective nominees, as applicable, pursuant to the terms of the Deposit Agreement. The Depositary will instruct the Custodian to maintain custody of all duplicative share extracts (or other evidence of verification) provided to the Depositary, the Custodian or their respective agents pursuant to the Deposit Agreement. In the event of any discrepancy between the records of the Depositary or the Custodian and the Share Register, Gazprom has agreed that (whether or not it has received any notification from the Depositary) it will (i) use its best efforts to cause the Russian Share Registrar to reconcile its records to the records of the Depositary or the Custodian and to make such corrections or revisions in the Share Register as may be necessary in connection therewith and (ii) to the extent Gazprom is unable to so reconcile such records, promptly instruct the Depositary to notify the Owners of the existence of such discrepancy. Upon receipt of such instruction, the Depositary will promptly give such notification to the Owners pursuant to the Deposit Agreement (it being understood that the Depositary may at any time give such notification to the Owners, whether or not it has received instructions from Gazprom), and the Depositary will promptly cease issuing ADSs pursuant to the Deposit Agreement until such time as, in the opinion of the Depositary, such records have been appropriately reconciled.

Holding of deposited securities and other deposited property by Depositary

The Depositary will hold the deposited Shares and any other deposited property (such as cash dividends paid by the Company) for the sole benefit of the ADS holders. The Deposit Agreements provide that, except in the case of mandatory redemptions or exchanges or sales required to pay taxes on the deposited Shares, the deposited Shares can only be delivered out of the ADS facility to or to the order of a holder of the related ADSs upon surrender of such ADSs. Further, the Deposit Agreements provide that the Depositary may exercise voting rights with respect to deposited Shares only as instructed by ADS holders.

The Deposit Agreements provide that deposited cash shall be held by the Depositary or by the Custodian for the account and to the order of the Depositary or at such other place or places as the Depositary shall determine. The Depositary currently intends to hold any such cash in an account at the Custodian in the name of the Depositary or in an account at The Bank of New York Mellon in the name of the Depositary. Subject only to fees and taxes, the Deposit Agreements require the Depositary to distribute all cash it receives in respect of deposited securities or that are proceeds of the sale of any deposited securities to the ADS holders. The Deposit Agreements require the Depositary to convert deposited cash that is in a foreign currency into U.S. dollars if it can do so on a reasonable basis. If for any reason the Depositary cannot distribute deposited cash to ADS holders it will under the terms of the Deposit Agreements hold that cash for the account of the ADS

holders that have not been paid. To the extent the Depositary holds deposited cash with respect to which a record date for distribution has not been fixed, an ADS holder is entitled to receive its proportionate share of that cash upon surrender of its ADSs.

Set out below is a description of the movements of funds that occur when dividends are paid by the Company:

- (1) On the date upon which the Company makes a payment of a cash dividend, the Depositary receives such cash into an account of The Bank of New York Mellon ("BNYM") at the relevant local custodian bank (the "Cash Account"). The Cash Account is for the sole use of BNYM's Depositary Receipts ("DR") business and is governed by a separate and specific DR custody agreement.
- (2) The Cash Account is then debited and BNYM's 'DR Dividend Account' (the "DR Dividend Account") is credited to reflect the receipt and allocation of the funds in BNYM's books. The DR Dividend Account is for the sole use of the DR business and all funds are held for the benefit of DR holders.
- (3) If required, a foreign exchange trade is executed to convert the local currency into the denomination of the Depositary Receipt (being U.S. dollars in the case of the ADSs). The local currency would be paid, at the Depositary's order, from the Cash Account to the foreign exchange counterparty and movement of funds would be reflected in BNYM's books by a debit to the Cash Account and a credit to the DR Dividend Account.
- (4) On the ADS dividend payment date, the funds are distributed to ADS holders through the various clearing systems (DTC, Euroclear and Clearstream) and/or via cheques or other appropriate means if there are registered holders.

BNYM's DR business has a cash dividend technology designed to track and manage the flow of funds at all times. The cash representing each dividend paid by a company is discrete within BNYM's system, thereby enabling BNYM to identify funds owed to holders of each individual DR programme. The system records all relevant dates, local currency, declared rate, gross rate, withholding tax rate, tax, fees where appropriate, the net rate and the calculation used to arrive at it.

General

Neither the Depositary nor Gazprom nor any of their respective directors, employees, agents or affiliates will be liable to any Owner or Beneficial Owner if by reason of (a) any provision of any present or future law or regulation of the United States, the Russian Federation or any other country, or of any other governmental or regulatory authority or stock exchange or by reason of any act of God or war or other circumstance beyond its control, or (b) in the case of the Depositary only, (i) any act or failure to act of Gazprom or its agents, including the Russian Share Registrar, or their respective directors, employees, agents or affiliates, (ii) any provision, present or future, of the Charter of Gazprom or any other instrument of Gazprom governing the Deposited Securities, or (iii) any provision of any securities issued or distributed by Gazprom or any offering or distribution thereof, the Depositary or Gazprom or any of their directors, employees, agents, or affiliates shall be prevented, delayed or forbidden from, or be subject to any civil or criminal penalty on account of, doing or performing any act or thing which by the terms of the Deposit Agreement or the Deposited Securities it is provided shall be done or performed (including, in the case of the Depositary, delivery of any Deposited Securities or the distribution of cash or property in respect thereof pursuant to the Deposit Agreement); nor will the Depositary or Gazprom incur any liability to any Owner or Beneficial Owner by reason of any nonperformance or delay, caused as stated in the preceding clause, in the performance of any act or thing which by the terms of the Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for under the Deposit Agreement or the Charter of Gazprom.

Gazprom assumes no obligation nor will it be subject to any liability under the Deposit Agreement to Owners or Beneficial Owners of ADSs, except that it agrees to perform its obligations specifically set forth under the Deposit Agreement. The Depositary assumes no obligation nor will it be subject to any liability under the Deposit Agreement to Owners or Beneficial Owners of ADSs, except that it agrees to perform its obligations specifically set forth under the Deposit Agreement without negligence or bad faith.

The ADSs are transferable on the books of the Depositary, *provided that* the Depositary may close the transfer books, after consultation with Gazprom to the extent practicable, at any time or from time to time when deemed expedient by it in connection with the performance of its duties or at the written request of Gazprom. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination or surrender of any ADR or withdrawal of any Deposited Securities, the Depositary or the Custodian may require payment from the person presenting the ADR or the depositor of the Shares of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees and expenses payable by the Beneficial Owners. The Depositary may refuse to deliver ADSs, to register the transfer of any ADR or to make any distribution on, or related to Shares until it has received such proof of citizenship or residence, exchange control approval, evidence of payment of applicable taxes and other governmental charges, or other information as it or Gazprom, upon written notice to the Depositary, may deem necessary or proper. The delivery, transfer and surrender of ADSs generally may be suspended during any period when the transfer books of the Depositary, Gazprom or the Russian Share Registrar are closed or if any such action is deemed necessary or advisable by the Depositary or Gazprom, at any time or from time to time.

Subject to the terms and conditions of the Deposit Agreement and any limitations established by the Depositary, and unless requested by Gazprom to cease doing so, the Depositary may deliver ADSs prior to the receipt of Shares (a "Pre-Release") and deliver Shares upon the receipt and cancellation of ADSs which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such ADR has been Pre-Released. The Depositary may receive ADSs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release must be (a) preceded or accompanied by a written representation from the person to whom the ADSs or Shares are to be delivered that such person, or its customer, (i) owns the Shares or ADSs to be remitted, as the case may be, (ii) assigns all beneficial right, title and interest in such Shares or ADSs, as the case may be, to the Depositary in its capacity as such and for the benefit of the Owners and Beneficial Owners, and (iii) will not take any action with respect to such Shares or ADSs, as the case may be, that is inconsistent with such transfer of beneficial ownership (including, without the consent of the Depositary, disposing of such Shares or ADSs, as the case may be) other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash, U.S. government securities or such other collateral as the Depositary determines, in good faith, will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five business days' notice and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. Each deposit of Shares under the Rule 144A Deposit Agreement in connection with a Pre-Release described above shall be subject to receipt by the Depositary of a duly executed and completed Depositor Certificate.

The Depositary will keep books, at its transfer office in The City of New York, for the registration and registration of transfer of ADSs, which at all reasonable times will be open for inspection by the Owners, *provided that* such inspection shall not be for the purpose of communicating with Owners in the interest of a business or object other than the business of Gazprom, including but not limited to a matter related to the Deposit Agreement or the ADSs.

The Depositary may, after consultation with Gazprom to the extent practicable, appoint one or more co-transfer agents reasonably acceptable to Gazprom for the purpose of effecting transfers, combinations and split-ups of ADSs, at designated transfer offices on behalf of the Depositary. In carrying out its functions, a co-transfer agent may require evidence of authority and compliance with applicable laws and other requirements by Beneficial Owners or Owners or persons entitled thereto and will be entitled to protection and indemnity to the same extent as the Depositary.

Governing Law

The Deposit Agreements are governed by the laws of the State of New York. Any dispute under the Deposit Agreements may be resolved in arbitration in London, England or in courts of England and Wales.

TRANSFER RESTRICTIONS

The global Rule 144A ADR bears a legend substantially to the following effect:

THIS RULE 144A AMERICAN DEPOSITARY RECEIPT, THE RULE 144A AMERICAN DEPOSITARY SHARES EVIDENCED HEREBY AND THE ORDINARY SHARES, NOMINAL VALUE RR 5 PER SHARE OF GAZPROM (THE "SHARES") REPRESENTED THEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE BENEFICIAL OWNER OR ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A, UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (C) IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE BENEFICIAL OWNER OF ORDINARY SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A AMERICAN DEPOSITARY RECEIPTS MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH ORDINARY SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK (INCLUDING ANY SUCH FACILITY MAINTAINED BY THE DEPOSITARY FOR THE RULE 144A AMERICAN DEPOSITARY RECEIPTS), SO LONG AS SUCH ORDINARY SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE ORDINARY SHARES OR AMERICAN DEPOSITARY SHARES.

IT IS EXPECTED THAT ORDINARY SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR IN THE NAME OF THE DEPOSITARY OR ITS NOMINEE OR OF THE CUSTODIAN OR ITS NOMINEE. OWNERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES CERTAIN RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF ORDINARY SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION WILL NOT RECOGNISE OR ENFORCE JUDGEMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

UNDER RUSSIAN LAW, THE POSSIBILITY OF INCREASING THE NORMAL VALUE OF SHARES THROUGH A COMPULSORY ASSESSMENT OF SHAREHOLDERS IS NOT EXPRESSLY PROHIBITED. THE EFFECTIVENESS OF ANY ATTEMPT TO MAKE A COMPULSORY ASSESSMENT OF SHAREHOLDERS IS UNCERTAIN, SINCE RUSSIAN LAW NEITHER CONTEMPLATES SUCH ACTION NOR PROVIDES A MECHANISM TO ENFORCE ANY SUCH ATTEMPT. GAZPROM HAS PUBLICLY STATED THAT IT HAS NO INTENTION OF INCREASING THE NOMINAL VALUE OF THE SHARES THROUGH A COMPULSORY ASSESSMENT OF SHAREHOLDERS. OWNERS AND BENEFICIAL OWNERS OF AMERICAN DEPOSITARY SHARES SHALL IN NO EVENT HAVE RECOURSE AGAINST THE DEPOSITARY WITH RESPECT TO ANY SUCH ASSESSMENT.

THE RIGHTS OF OWNERS TO DIRECT THE VOTING OF SHARES AND OTHER DEPOSITED SECURITIES IS RESTRICTED.

INFORMATION REGARDING THE ADR DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Mellon Corporation, a New York bank holding company. The principal executive office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices are located at 101 Barclay Street, New York, New York 10286. A copy of the Depositary's Articles, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the principal office of the Depositary located at One Wall Street, New York, NY 10286 and at The Bank of New York Mellon, One Canada Square, London E14 5AL.

SETTLEMENT AND TRANSFER

Clearing and Settlement of ADSs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the ADSs and cross-market transfers of the ADSs associated with secondary market trading.

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic bookentry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the ADSs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the ADSs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the ADSs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the ADSs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the ADSs, may be limited.

Global Clearance and Settlement Procedures

Initial Settlement

The Rule 144A ADSs are in global form evidenced by a global Rule 144A ADR. Level I ADSs may be evidenced by a global Level I ADR or by separate Level I ADRs. Purchasers electing to hold book-entry interests in ADSs through Euroclear or Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the ADSs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

For a description of the transfer restrictions relating to the Rule 144A ADSs, see "Transfer Restrictions".

Trading between Euroclear and Clearstream participants

Secondary market sales of book-entry interests in the ADSs held through Euroclear or Clearstream to purchasers of book-entry interests in the ADSs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC participants

Secondary market sales of book-entry interests in the ADSs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream purchaser

When book-entry interests in the ADSs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the ADSs registered in the name of a nominee for DTC and represented by the global Rule 144A ADR and (ii) increase the amount of book-entry interests in the ADSs registered in the name of the common nominee for Euroclear and Clearstream and represented by the global Level I ADR.

Trading between Clearstream/Euroclear seller and DTC purchaser

When book-entry interests in the ADSs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the ADSs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (i)

decrease the amount of the book-entry interests in the ADSs registered in the name of the common nominee and evidenced by the global Level I ADR and (ii) increase the amount of the book-entry interests in the ADSs registered in the name of a nominee for DTC and represented by the global Rule 144A ADR.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the ADSs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of Gazprom, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

TAXATION

The following summary of material Russian and United Kingdom tax consequences of ownership of the ADSs is based upon laws, regulations, decrees, rulings, income tax treaties, administrative practice and judicial decisions in effect at the date of this Prospectus. However, legislative, judicial or administrative changes or interpretations may be forthcoming that could, alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the ADSs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to an ADS holder. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of DRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

THIS DISCUSSION IS FOR GENERAL INFORMATION ONLY. POTENTIAL INVESTORS IN ADSs ARE URGED TO CONSULT THEIR OWN TAX ADVISORS PRIOR TO INVESTING AS TO THE PARTICULAR RUSSIAN FEDERAL TAX AND UNITED KINGDOM TAX CONSIDERATIONS RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE ADSs OR THE SHARES, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF A DOUBLE TAX TREATY BETWEEN RUSSIA AND THEIR COUNTRY OF RESIDENCE, IN LIGHT OF THEIR PARTICULAR FACTS AND CIRCUMSTANCES, AS WELL AS THE APPLICABILITY AND EFFECT OF STATE, PROVINCIAL AND LOCAL TAX LAWS AND FOREIGN TAX LAWS.

Certain Russian Federal Tax Considerations

The following is a general summary of certain Russian federal tax considerations relating to the purchase, ownership and disposition of the ADSs by Russian resident and non-resident holders. This summary is based on the laws of Russia in effect on the date of this Prospectus. This summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does this summary seek to address the availability of a double tax treaty relief, and it should be noted that there may be practical difficulties involved in claiming relief under any applicable double tax treaty. Prospective investors should consult their own advisers regarding tax considerations relating to an investment in the ADSs. No representations with respect to Russian tax considerations relating to any particular holder are made hereby.

For the purpose of this summary, a "Non-Resident Holder" means:

- an individual ADS holder not considered Russian tax resident under Russian personal income tax provisions in effect at the time he or she has earned the income, or "Non-Resident Holder Individual". Under the current law, the Russian tax residency for individuals is generally determined based on the number of days a person spends in Russia in a 12 month period. An individual's presence in Russia is not considered to be interrupted if the individual departs from Russia for short periods (less than 6 months) for the purpose of medical treatment and education. Although current legislation specifies that in order to qualify as a Russian tax resident an individual must be present in Russia for at least 183 days in a period consisting of 12 consecutive months, the question how the 12 month rule should be applied in practice is debatable and the answer is not entirely clear. The Ministry of Finance has issued several letters implying that the final tax status of an individual taxpayer shall still be defined for a whole calendar year by counting the days spent in Russia within the relevant calendar year; or
- a legal entity or organisation in each case not incorporated or otherwise organised under Russian Law, which purchases, holds and disposes ADSs other than through its permanent establishment in Russia, or "Non-Resident Holder Legal Entity".

For the purposes of this summary, a "Russian Resident Holder" means any ADS holder (including any individual and any legal entity) not qualifying as a non-resident holder.

The residency rules may be affected by an applicable double tax treaty. It is anticipated that the Russian tax residency rules applicable to legal entities may change in the future.

For the purposes of this summary, a "Tax Agent" means a legal entity organised under Russian law or a legal entity or organisation, in either case organised under a foreign law and paying out income attributable to its permanent establishment or, arguably, any other registered presence in the Russian Federation, which pays out dividend or capital gains income on ADSs to legal entities that are Non-Resident Holders or to individuals that are ADS holders.

The Russian tax rules applicable to securities, and in particular to the tax treatment of a Non-Resident Holder which holds Russian securities, are characterised by significant uncertainties and by an absence of clear interpretative guidance. Russian tax law and procedures are not well developed and rules are sometimes interpreted differently by different tax inspectors. In addition, the substantive provisions of Russian tax law may be subject to a more rapid and unpredictable change than in a jurisdiction with more developed capital markets.

Taxation of Dividends

In the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and because of the fact that under Russian law the Depositary (and not holders of the ADSs) is the legal owner of the Shares, there are uncertainties in relation to taxation of dividends payable to holders of the ADSs.

There were several interpretations of the tax provisions from the Ministry of Finance addressing the beneficial ownership concept in Russia for double tax treaty purposes. These interpretations suggest that the Ministry of Finance will look at the beneficial owner of an ADS instead of the nominal owner (such as a depositary) in determining whether the ADS's holder may benefit from the terms of a double tax treaty. However, these interpretations are not binding under Russian tax law and are subject to uncertainty and unpredictable positions of tax inspectors. As well there is no clearly established practical procedure for payers of income to withhold tax based on the tax residency of the beneficial owner.

Due to the above uncertainty in the beneficial ownership concept in Russia and because of the fact that the Depositary (and not the holder of the ADSs) is the legal holder of the shares under Russian law, it is possible that the treaty relief may be unavailable to Non-Resident Holders of ADSs. In addition, the Russian tax authorities may disallow application of a relief under the double tax treaty between the Russian Federation and the Depositary's country of residence. Therefore, Gazprom may be unable to apply reduced rates provided by the relevant double tax treaty and will be obliged to withhold income tax at a maximum rate of 15% from dividend payments made to the Depositary. See "—Certain Russian Federal Tax Considerations—Tax Treaty Procedures" below.

Moreover, from a practical perspective, it may not be possible for the Depositary to collect residence confirmations from all ADS holders and submit such information to Gazprom and, in addition, Gazprom may be unaware of the exact amount of income payable to each particular holder.

The remainder of this sub-section describes taxation of the dividend income received by ADS holders if they would be treated by Gazprom as beneficial owners of the dividends according to the foregoing clarifications of the Ministry of Finance.

Russian Resident Holders

Dividends paid to a Russian Resident Holder of ADSs that is a Russian legal entity or who is an individual will be subject to Russian withholding tax at a rate of 9%. In certain cases 0% withholding tax rate may apply to dividends received by legal entities that are Russian Resident Holders.

The Tax Code does not clearly state which rate of withholding tax should apply to dividends payable to a Russian Resident Holder of ADSs that is a permanent establishment of a foreign legal entity (or organisation). According to the official recommendations issued by the Russian tax authorities, withholding tax at a rate of 9% should apply to dividends paid to a Russian permanent establishment of a foreign legal entity (or organisation) provided that there is a double tax treaty between Russia and the country of tax residency of the respective foreign legal entity (or organisation) and that treaty contains non-discrimination provisions. Otherwise, a 15% tax rate should apply. However, as the Tax Code does not specifically provide for the application of the reduced tax rate, no assurance can be given that the application of a 9% tax rate on dividends paid to residents of the treaty jurisdictions would not be challenged by Russian tax authorities.

Non-Resident Holders

Dividends paid to a Non-Resident Holder of ADSs will be subject to Russian withholding income tax at a 15% rate which will be withheld by Gazprom acting as a Tax Agent.

Technically, withholding income tax on dividends may be reduced under provisions of a double tax treaty between the Russian Federation and the country of tax residency of the Non-Resident Holder. For example, the Convention Between the Government of the Russian Federation and the Government of the United Kingdom and Northern Ireland on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains (the "U.K. – Russia Tax Treaty") provides for a 10% withholding rate on dividends paid to U.K. holders that are beneficial owners of the dividends and are subject to taxation with respect to these dividends in the United Kingdom.

The procedure of obtaining a tax relief under a double tax treaty is described in section "—Certain Russian Federal Tax Considerations—Tax Treaty Procedures". However, due to the existing uncertainty in treatment of ADS holders described in the beginning of this sub-section, it is possible that the tax relief under a relevant double tax treaty may not be granted to Non-Resident Holders on dividends received on ADSs.

Taxation of Capital Gains

Russian Resident Holders

Legal Entities

Capital gains arising from the sale, exchange or other disposition of ADSs by a Russian Resident Holder that is a legal entity will be taxed at the regular Russian tax rate of 20%. The tax should be declared and paid directly by the holder. Russian tax legislation contains a requirement that profits arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profits from operations with securities that are not quoted on a stock exchange and from operating profits. Therefore, Russian Resident Holders that are legal entities may be able to apply losses arising in respect of ADSs only to offset capital gains, or as a carry forward to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a dealer's licence.

Individuals

Capital gains arising from the sale, exchange or other disposition of ADSs by Russian Resident Holders that are individuals are subject to personal income tax at a rate of 13%.

The tax base in respect of a sale of the securities by an individual is calculated as the sale proceeds less documentary confirmed expenses related to the purchase of such securities (including the cost of such securities and expenses associated with the purchase, holding and sale of such securities).

The income tax can only be withheld at the source of payment if the sale was made by a Russian Resident Holder that is an individual through a professional securities market participant (for example, a Russian broker, asset manager, or management company, which performs asset management of unit investment fund property). Otherwise, no withholding will be made and the individual should remit the respective tax to the Russian tax authorities.

If the tax was not withheld at source, the capital gains should be declared on the individual's tax return (which includes filing of support documentation for the deducted expenses) and filed with the Russian tax authorities no later than April 30 of the year following the reporting period.

As Russian legislation related to the taxation of income derived by Russian Resident Holders (both individual and, legal entities or organisations) from the sale, exchange or other disposition of ADSs is not entirely clear, Gazprom urges Russian Resident Holders to consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of ADSs.

Non-Resident Holders

Legal Entities and Organisations

Under Russian tax legislation, gains arising from sale, exchange or other disposition of ADSs that are circulated (i.e., listed and traded) on a foreign stock exchange by Non-Resident Holder Legal Entities fall outside the scope of Russian taxes provided that such transaction was made on a foreign stock exchange. Therefore, as long as the ADSs remain listed on the London Stock Exchange, gains arising from sale, exchange or other disposition of the ADSs on the London Stock Exchange by Non-Resident Holder Legal Entities should not be subject to taxation in Russia and, hence, to Russian withholding income tax.

The remainder of this sub-section applies only to (i) any sale, exchange or other disposition occurred outside foreign stock exchanges and/or (ii) ADSs that are not circulated (i.e., listed and traded) on foreign stock exchanges.

Capital gains arising from sale, exchange or other disposition of ADSs by Non-Resident Holder Legal Entities should not be subject to tax in Russia if Gazprom's immovable property located in Russia represents 50% or less of its assets. Because determination of whether the immovable property located in Russia constitutes more than 50% of the assets of Gazprom is inherently factual and is made on an on-going basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that immovable property located in Russia currently, or will in future, constitute not more than 50% of Gazprom's assets.

If more than 50% of the assets of Gazprom consist of immovable property located in Russia, a Non-Resident Holder Legal Entity of the ADSs will be subject to a 20% withholding tax rate on the gross proceeds from the sale of the ADSs less the cost of the acquisition and disposal costs (which need to be evidenced by proper supporting documents) of the ADSs. In absence of documents confirming acquisition costs, 20% tax would be charged on the gross revenue.

There is a risk that the Tax Agents that are obligated to withhold tax on capital gains may not have sufficient information regarding Gazprom's assets to conclude what percentage of the assets consists of immovable property and could therefore conservatively seek to withhold tax from the income paid to the Non-Resident Holder Legal Entities selling ADSs. In such case, it is not clear whether Non-Resident Holder Legal Entities can refund the excessively withheld tax due to the absence of the respective mechanism in the Russian tax legislation.

Where ADSs are sold by a Non-Resident Holder Legal Entity to persons other than a Russian company or a foreign legal entity or organisation with a permanent establishment in Russia (or, arguably, with any registered presence in Russia) even if the resulting capital gain is considered a taxable Russian source income,

there is currently no mechanism under which the respective tax could be withheld and remitted to the Russian tax authorities.

Some tax treaties entered into by the Russian Federation provide for the elimination of taxation of capital gains in Russia for Non-Resident Holders qualifying for the relevant treaty benefits even if the greater part of the assets is represented by immovable property. However, under the U.K.-Russia Tax Treaty, capital gains from the sale by U.K. resident holders of shares would still be taxed in Russia in circumstances where the value of the shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange. It may be also noted that due to separation of legal ownership and beneficial ownership to the Russian shares, underlying the ADSs, application of an appropriate double tax treaty could be challenged with respect to ADSs. Russian tax legislation does not provide for clear guidance regarding availability of double tax treaty relief for ADSs, therefore, depending on the wording of each particular double tax treaty, it may be necessary to analyse the possibility to apply double tax treaty relief.

The procedure of obtaining a tax relief under a double tax treaty is described in section "—Certain Russian Federal Tax Considerations—Tax Treaty Procedures".

Individuals

According to Russian tax legislation, taxation of capital gains realised on a sale, exchange or other disposition of ADSs by Non-Resident Holder Individuals will depend on whether this income is considered as received from Russian or non-Russian sources. In the absence of a clear definition of what constitutes income from sources within Russia in case of the sale of ADSs, there is a certain risk that income from the disposal of ADSs may be considered as received from Russian source if the transaction is viewed as conducted in Russia. If the income is considered received from a non-Russian source, it is not subject to taxation in Russia.

Income from the sale, exchange or other disposition of ADSs by a Non-Resident Holder Individual, if considered Russian source income, should be subject to tax at a rate of 30% (unless a treaty relief is available) on the difference between the sale price and expenses incidental to acquisition, storage and sale of ADSs. However, the income tax can only be withheld at the source of payment if the sale was made by a Non-Resident Holder Individual through a professional securities market participant (for example, a Russian broker, asset manager, or management company, which performs asset management of unit investment fund property). Otherwise, no withholding will be made and the Non-Resident Holder Individual will have an obligation to remit the respective tax to the Russian tax authorities. Since capital gains may be calculated in Russian roubles, the taxable base could be affected by changes in the Russian rouble exchange rates.

If tax was not withheld at source, the capital gains should be declared on the individual's tax return (which includes filing of support documentation for the deducted expenses) and filed with the Russian tax authorities no later than April 30 of the year following the reporting period.

It should be noted that Russian tax legislation does not provide for a clear guidance regarding taxation of ADSs. In case disposal of ADSs is treated by the Russian tax authorities as disposal of property other than shares, the deductibility of acquisition costs may be challenged as such a deduction is not provided for Non-Resident Individuals.

Some tax treaties entered into by the Russian Federation provide for elimination of taxation of capital gains in Russia for Non-Resident Holders qualifying for the relevant treaty benefits even if the greater part of the assets is represented by immovable property. However, under the U.K.-Russia Tax Treaty, capital gains from the sale by U.K. resident holders of shares in case the value of the shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange would still be taxed in Russia. It may be also noted that due to separation of legal ownership and beneficial ownership to the Russian shares, underlying the ADSs, application of an appropriate double tax treaty could be challenged with respect to ADSs. Russian tax legislation does not provide for clear

guidance regarding availability of double tax treaty relief for ADSs, therefore, depending on the wording of each particular double tax treaty, it may be necessary to analyse the possibility to apply double tax treaty relief.

The procedure of obtaining a tax relief under a double tax treaty is described in section "—Certain Russian Federal Tax Considerations—Tax Treaty Procedures".

Tax Treaty Procedures

In order to take advantage of a double tax treaty, it is necessary to provide the Tax Agent with confirmation of tax residency in a state with which Russia has concluded the relevant treaty. The confirmation of the Non-Resident Holder's residency may be issued in the form of a letter from the competent authority of the Non-Resident Holder's country, containing the tax identification number of the resident (if any), the period covered by the letter and the date of issuance. The confirmation of tax residency needs to be renewed and provided to the Tax Agent before the first payment in each tax period (calendar year). The letter should be duly signed and stamped. The aforementioned confirmation should be duly apostilled or legalised and translated into Russian.

Legal Entities and Organisations

If tax treaty clearance is not obtained and tax is withheld by the Tax Agent on capital gains, dividend payments or other amounts, a Non-Resident Holder may apply for a tax refund by filing a package of documents with the Russian local tax inspectorate to which the withholding tax was remitted, within 3 years from the end of the tax period in which the tax was withheld for Non-Resident Holders Legal Entities. The package should include the appropriate form (1012 DT (2002) for dividend income and 1011DT (2002) for other income), confirmations of residence of the foreign holder, a copy of the agreement or other documents substantiating the payment of income and documents confirming the transfer of tax to the budget. Under the provisions of the Tax Code, the refund of the tax should be effected within one month after the submission of the documents. However, procedures for processing such claims have not been clearly established, and there is a significant uncertainty regarding the availability and timing of such refunds.

Individuals

The provisions of the Tax Code in respect of granting double tax treaty reliefs are drafted in such a way as to effectively limit the ability of obtaining a treaty relief by way of non-withholding or withholding tax at a reduced rate, therefore, individuals may have to apply for refund of taxes withheld.

In particular, to obtain treaty benefits a Non-Resident Holder Individual in addition to confirmation of tax residency described above must provide appropriate documentary proof of tax payments outside of Russia on income with respect to which treaty benefits are claimed (where the treaty exemption is conditional on the income concerned being subject to taxation in other jurisdiction). Because of uncertainties regarding the form and procedures for providing such documentary proof, individuals in practice may be unable to obtain treaty benefits on receipt of proceeds from a source within Russia.

If tax treaty clearance is not obtained and tax is withheld by the Tax Agent on capital gains, dividend payments or other amounts, a Non-Resident Holder Individual may apply for a tax refund by filing a package of documents with the Russian local tax inspectorate to which the withholding tax was remitted, within one year from the end of the tax period (a calendar year) in which the tax was withheld. Under the provisions of the Tax Code, the refund of the tax should be effected within one month after the submission of the documents. However, procedures for processing such claims have not been clearly established, and there is significant uncertainty regarding the availability and timing of such refunds.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming a holder's right to obtain relief under a double tax treaty. Such documentation may not be explicitly required by the Tax Code.

In practice, the above-mentioned Tax Treaty procedures may be more complicated with respect to ADSs in comparison to Russian shares, due to separation of legal ownership and beneficial ownership to the Russian shares, underlying the ADSs. Russian tax legislation does not provide for clear guidance regarding availability and procedures of application of double tax treaty relief for ADSs, therefore, in practice additional difficulties may arise. Therefore, Gazprom cannot assure potential investors that the double tax treaty relief will be available for ADS holders due to uncertainties in the Russian tax legislation.

The Russian tax authorities may require Non-Resident Holders to provide a Russian translation of the required documents.

Certain United Kingdom Tax Considerations

The following is a general summary of certain U.K. tax considerations relating to the ownership and disposal of the ADSs. It is based on current U.K. tax law and published HM Revenue & Customs ("HMRC") practice as at the date of this Prospectus, each of which is subject to change, possibly with retrospective effect.

The summary applies only to persons who are resident (and, in the case of individuals, ordinarily resident and domiciled) in the United Kingdom for tax purposes and who are not resident for tax purposes in any other jurisdiction and do not have a permanent establishment or fixed base in any other jurisdiction with which the holding of ADSs is connected ("U.K. Holders"). Persons (a) who are not resident or ordinarily resident (or, if resident or ordinarily resident, are not domiciled) in the United Kingdom for tax purposes, including those individuals and companies who trade in the United Kingdom through a branch, agency or permanent establishment in the United Kingdom to which the ADSs are attributable, or (b) who are resident or otherwise subject to tax in a jurisdiction outside the United Kingdom, are recommended to seek the advice of professional advisors in relation to their taxation obligations.

This summary is for general information only and is not intended to be, nor should it be considered to be, legal or tax advice to any particular investor. It does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under U.K. tax law. In particular:

- this summary only applies to the absolute beneficial owners of the ADSs and any dividends paid in respect of the underlying Shares where the dividends are regarded for U.K. tax purposes as that person's own income (and not the income of some other person);
- this summary: (a) only addresses the principal U.K. tax consequences for investors who hold ADSs as capital assets, (b) does not address the tax consequences which may be relevant to certain special classes of investor such as dealers, brokers or traders in shares or securities and other persons who hold ADSs otherwise than as an investment, (c) does not address the tax consequences for holders that are financial institutions, insurance companies, collective investment schemes, pension schemes, charities or tax-exempt organisations, (d) assumes that the holder is not an officer or employee of Gazprom (or of any related company) and has not (and is not deemed to have) acquired the ADSs by virtue of an office or employment, and (e) assumes that the holder does not control or hold (and is not deemed to control or hold), either alone or together with one or more associated or connected persons, directly or indirectly (including through the holding of the ADSs), an interest of 10% or more in the Shares, voting power, rights to profits or capital of Gazprom, and is not otherwise connected with Gazprom.

This summary further assumes that (a) a holder of ADSs is, for U.K. tax purposes, absolutely beneficially entitled to the underlying Shares and to the dividends on those Shares, and (b) dividends paid by Gazprom will be treated as income distributions for U.K. tax purposes.

Potential investors in the ADSs should satisfy themselves prior to investing as to the overall tax consequences, including, specifically, the consequences under U.K. tax law and HMRC practice of the

acquisition, ownership and disposal of the ADSs, in their own particular circumstances by consulting their own tax advisers.

Taxation of Dividends

Withholding Tax

Dividend payments in respect of the ADSs may be made without withholding or deduction for or on account of U.K. tax.

As discussed in the paragraphs headed "- Taxation of Dividends – Non-Resident Holders" in the Russian tax section, dividend payments on the ADSs will generally be subject to Russian withholding tax, currently at the rate of 15 %.

Individual U.K. Holders subject to income tax at the basic rate will not, in practice, be entitled to a credit in the United Kingdom for Russian withholding tax deducted at source from the dividend payment (but the U.K. tax credit described under section " – Income Tax" below will generally satisfy in full such holders' liability to U.K. income tax on the dividend).

Individual U.K. Holders subject to income tax at the additional or higher rate may be entitled to a credit against U.K. income tax for Russian withholding tax deducted at source from the dividend payment. Credit will not be available to the extent that the Russian withholding tax can be minimised or repaid by taking all reasonable steps under the U.K.-Russian double tax treaty or under a provision of Russian law.

Prospective corporate U.K. Holders should note that, where a dividend paid by Gazprom is treated as exempt in the United Kingdom (see " – Corporation Tax" below) the U.K. Holder will not be entitled to claim relief by way of credit in the United Kingdom in respect of any tax paid under the laws of Russia, either directly or by deduction, in respect of that dividend.

Prospective U.K. Holders should note that an application for a reduced rate or refund of Russian withholding tax may be time-consuming, and there can be no assurance that a reduced rate or refund would be granted. In particular, the Russian tax authorities may not treat a U.K. Holder as being the beneficial owner of dividends paid to them, for the purposes of the UK-Russia double tax treaty, in which case relief under the treaty may not be available (see "- Taxation of Dividends – Non-Resident Holders" in the Russian tax section). For this reason, and reasons given above, U.K. Holders may be left without credit or relief in both Russia and the United Kingdom in respect of Russian withholding tax.

Prospective U.K. Holders are referred to "- Taxation of Dividends – Non-Resident Holders" in the Russian tax section. Prospective U.K. Holders should consult their own tax advisors with respect to the tax consequences of the receipt of dividend income from a source within Russia.

Income Tax

Dividends received by individual U.K. Holders will be subject to U.K. income tax on the full amount of the dividend paid (before deduction of any Russian withholding tax), grossed up for the amount of the non-refundable U.K. dividend tax credit referred to below.

The rate of U.K. income tax which is chargeable on dividends received in the tax year 2011/2012 by (i) additional rate taxpayers is 42.5 %, (ii) higher rate taxpayers is 32.5 %, and (iii) basic rate taxpayers is 10%. Individual U.K. Holders will be entitled to a non-refundable tax credit equal to one-ninth of the full amount of the dividend declared by Gazprom (before deduction of any Russian withholding tax), which will be taken into account in computing the gross amount of the dividend which is chargeable to U.K. income tax. The tax credit

will be credited against the U.K. Holder's liability (if any) to U.K. income tax on the full amount of the dividend declared by Gazprom (before deduction of any Russian withholding tax). After taking into account the tax credit, the effective rate of tax (i) for additional rate taxpayers will be approximately 36 % of the dividend paid, (ii) for higher rate taxpayers will be 25 % of the dividend paid, and (iii) for basic rate taxpayers will be nil. An individual shareholder who is not subject to U.K. income tax on dividends received from Gazprom will not be entitled to claim payment of the tax credit in respect of such dividends. An individual's dividend income is treated as the top slice of their total income which is chargeable to U.K. income tax.

Individual U.K. Holders who are additional or higher rate taxpayers may be entitled to a credit, against any U.K. tax payable on the full amount of the dividend declared by Gazprom, for Russian withholding tax deducted at source from the dividend payment. Individual U.K. Holders who are basic rate taxpayers will not be entitled to a refund from HMRC of any credit in respect of any Russian tax withheld on the dividend. See " – Withholding Tax" above.

Corporation Tax

A U.K. Holder within the charge to U.K. corporation tax should generally be entitled to exemption from U.K. corporation tax in respect of dividend payments, although the exemptions are not comprehensive and are also subject to anti-avoidance rules. If the conditions for the exemption are not satisfied, or a U.K. Holder elects for an otherwise exempt dividend to be taxable, U.K. corporation tax will be chargeable on the gross amount of any dividends. Where a dividend paid by Gazprom is treated as exempt, U.K. Holders within the charge to corporation tax will not be entitled to claim relief by way of credit in the United Kingdom in respect of any tax paid by the holder under the laws of Russia, either directly, or by deduction, in respect of that dividend.

If potential investors are in any doubt as to their position, they should consult their own professional advisers.

Provision of information

Persons in the United Kingdom paying "foreign dividends" to, or receiving "foreign dividends" on behalf of, another person, may, in certain circumstances, be required to provide certain information to HMRC regarding the identity of the payee or the person entitled to the "foreign dividend", and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in accordance with guidance published by HMRC applicable for the 2011/2012 tax year, dividend payments in respect of the ADSs should not be treated as falling within the scope of the requirement. There is no guarantee that equivalent guidance will be issued in respect of future years.

Taxation of Disposals

A disposal or deemed disposal of ADSs by an individual U.K. Holder may, depending on his or her individual circumstances, give rise to a chargeable gain or to an allowable loss for the purpose of U.K. capital gains tax. The principal factors that will determine the capital gains tax position on a disposal of ADSs are the extent to which the holder realises any other capital gains in the tax year in which the disposal is made, the extent to which the holder has incurred capital losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the "annual exemption"). The annual exemption for the 2011/2012 tax year is £10,600. If, after all allowable deductions, an individual U.K. Holder's taxable income for the year exceeds the basic rate income tax limit, a taxable capital gain accruing on a disposal of ADSs will be taxed at 28%. In other cases, a taxable capital gain accruing on a disposal of ADSs may be taxed at 18% or 28% or at a combination of both rates.

An individual U.K. Holder who ceases to be resident or ordinarily resident in the United Kingdom for a period of less than five years and who disposes of his or her ADSs during that period of temporary non-residence may be liable to U.K. capital gains tax on a chargeable gain accruing on such disposal on his or her return to the United Kingdom (subject to available exemptions or reliefs).

A disposal of ADSs by a corporate U.K. Holder may give rise to a chargeable gain or an allowable loss for the purpose of U.K. corporation tax. Such a holder should be entitled to an indexation allowance, which applies to reduce capital gains to the extent that such gains arise due to inflation. The allowance may reduce a chargeable gain but will not create an allowable loss.

Any gains or losses in respect of currency fluctuations relating to the ADSs would be brought into account on the disposal.

Prospective U.K. Holders are referred to "- Taxation of Capital Gains – Non-Resident Holders" in the Russian tax section, which describes circumstances in which disposals of ADSs may attract Russian withholding tax.

Credit against U.K. capital gains or corporation tax on the same gain, or relief under the U.K.-Russian double tax treaty, may be available in respect to any Russian tax suffered, subject to similar considerations and uncertainties as described above in "- Taxation of Dividends – Withholding Tax".

Stamp Duty and Stamp Duty Reserve Tax

The following statements assume that there is, and will continue to be, no register in the UK in respect of the ADSs or the underlying Shares, that neither the ADSs nor the underlying Shares will be paired with shares issued by a company incorporated in the United Kingdom and that the ADSs will not be issued by a depositary incorporated in the United Kingdom.

Assuming that any document effecting a transfer of, or containing an agreement to transfer, the ADSs is neither (1) executed in the United Kingdom nor (2) relates to any property situated, or to any matter or thing done or to be done, in the United Kingdom (which may include involvement of U.K. bank accounts in payment mechanics), then no U.K. stamp duty should be payable on such a document. No stamp duty reserve tax should be payable in respect of any agreement to transfer the ADSs.

No UK stamp duty or stamp duty reserve tax should be payable on:

- the issue of the ADSs;
- the delivery of ADSs into DTC, Euroclear or Clearstream; or
- any dealings in the ADSs once they are issued into DTC, Euroclear or Clearstream, where such dealings are effected in electronic book entry form in accordance with the usual procedures of DTC, Euroclear or Clearstream and not by written instrument of transfer.

Inheritance Tax

U.K. inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by, the owner of ADSs, where the owner is an individual who is domiciled or is deemed to be domiciled in the United Kingdom. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor receives or retains some benefit.

OVERVIEW OF THE RUSSIAN GAS INDUSTRY, CLASSIFICATION OF RESERVES AND CERTAIN APPLICABLE REGULATORY MATTERS

The information set forth in this section is based on publicly available information, including Russian legislation and regulatory acts. Gazprom accepts responsibility for accurately reproducing such information and as far as Gazprom is aware no facts have been omitted which would render such information misleading, but Gazprom accepts no further responsibility in respect of such information. Such information may include approximations or use rounded numbers.

General

The Russian natural gas industry developed during the Soviet era and expanded rapidly after the discovery in the 1960s of significant reserves in the exceptionally large natural gas fields of western Siberia. Russia experienced a profound crisis in the early 1990s as a result of the dissolution of the Soviet Union, suffering a decline in industrial production and GDP.

During the transition period, the Russian natural gas industry was one of the most stable and effective segments of the Russian energy complex, accounting for over 20% of foreign exchange revenues and approximately 25% of tax revenue contributions to the federal budget and providing approximately 50% of the fuel used in generating electricity in Russia.

Despite the crisis and structural transformation of the economy from 1990 through 1999, total natural gas production in Russia declined by only 7.9%, whereas the production of oil and coal declined by 40.8% and 37.1%, respectively. The share of gas in the total amount of energy resources consumption increased from 42% to 50%, primarily because domestic natural gas prices were maintained at a low level.

We currently account for the majority of natural gas production in Russia. In 2010, 2009 and 2008, we produced 508.6 bcm, 461.5 bcm and 549.7 bcm of natural gas, accounting for approximately 78%, 79% and 83% of total natural gas production in Russia, respectively (based on CDU TEC (source: www.cdu.ru) and Gazprom figures). We expect that production by independent companies as a share of total natural gas production in Russia will continue to increase. The current Russian gas market is also characterised by minimal competition and a significant level of government regulation.

Classification of Reserves

Our reserves of natural gas, gas condensate and crude oil have been evaluated according to PRMS Standards. In addition, certain evaluations were prepared in accordance with the Russian reserves system, which differs in certain material respects from PRMS Standards and standards applied by the SEC.

Russian Reserves System

The Russian reserves system is based on an analysis of the geological attributes of reserves and takes into account the actual presence of, and the probability of the presence of, hydrocarbons in the applicable geological formations. Explored reserves are represented by categories A, B and C1, preliminary estimated reserves are represented by category C2, potential resources are represented by category C3, and forecasted resources are represented by categories D1 and D2.

In accordance with the Russian reserves system, natural gas reserves in categories A, B and C1 are considered to be fully extractable. For reserves of crude oil and gas condensate, a predicted coefficient of extraction is calculated based on geological and technical factors.

Russian methods for calculating and classifying reserves differ from generally accepted practices in the United States and other countries. Reserves that are calculated using different methods cannot accurately be reconciled.

The estimation of reserves of natural gas, gas condensate and crude oil can be broken down into two components: (i) geological reserves, or the quantities of natural gas, gas condensate and crude oil contained in the subsoil; and (ii) extractable reserves, or the portion of geological reserves the extraction of which from the subsoil as of the date the reserves are calculated is economically efficient given market conditions and rational use of modern extraction equipment and technologies and taking into account compliance with the requirements of subsoil and environmental protection. The following paragraphs describe the categories of the Russian reserves system in more detail.

Category A reserves are calculated on the part of a deposit drilled in accordance with an approved development project for the oil or natural gas field. They represent reserves that have been analysed in sufficient detail to define comprehensively the type, shape and size of the deposit, the level of hydrocarbon saturation, the reservoir type, the nature of changes in the reservoir characteristics, the hydrocarbon saturation of the productive strata of the deposit, the content and characteristics of the hydrocarbons, and the major features of the deposit that determine the conditions of its development (mode of operations, well productivity, strata pressure, natural gas, gas condensate and oil balance, hydro- and piezo-conductivity and other features).

Category B represents the reserves of a deposit (or portion thereof) the oil or gas content of which has been determined on the basis of commercial flows of oil or gas obtained in wells at various hypsometric depths. The type, shape and size of the deposit, the effective oil and gas saturation depth and type of the reservoir, the nature of changes in the reservoir characteristics, the oil and gas saturation of the productive strata of the deposit, the composition and characteristics, of oil, gas and gas condensate under in-situ and standard conditions and other parameters, and the major features of the deposit that determine the conditions of its development have been studied in sufficient detail to draw up a project to develop the deposit.

Category B reserves are computed for a deposit (or a portion thereof) that has been drilled in accordance with either a trial industrial development project in the case of a natural gas field or an approved technological development scheme in the case of an oil field.

Category C₁ represents the reserves of a deposit (or a portion thereof) the crude oil or gas content of which has been determined on the basis of commercial flows of crude oil or gas obtained in wells (with some of the wells having been probed by a formation tester) and positive results of geological and geophysical exploration of non-probed wells.

The type, shape and size of the deposit and the formation structure of the oil-and gas-bearing reservoirs have been determined from the results of drilling exploration and production wells and by those geological and geophysical exploration techniques that have been field-tested for the applicable area. The lithological content, reservoir type and characteristics, oil and gas saturation, oil displacement ratio and effective oil and gas saturation depth of the productive strata have been studied based on drill cores and geological and geophysical exploration techniques. The composition and characteristics of oil, gas and gas condensate under in situ and standard conditions have been studied on the basis of well testing data. In the case of an oil and gas deposit, the commercial potential of its oil-bearing fringe has been determined. Well productivity, hydro- and piezo-conductivity of the stratum, stratum pressures and oil, gas and gas condensate temperatures and yields have been studied on the basis of well testing and well exploration results. The hydro-geological and geocryological conditions have been determined on the basis of well drilling results and comparisons with neighbouring explored fields.

Category C₁ reserves are computed on the basis of results of geological exploration work and production drilling and must have been studied in sufficient detail to yield data from which to draw up either a trial industrial development project in the case of a natural gas field or a technological development scheme in the case of an oil field.

Category C₂ reserves are preliminary estimated reserves of a deposit calculated on the basis of geological and geophysical research of unexplored sections of deposits adjoining sections of a field containing reserves of higher categories and of untested deposits of explored fields. The shape, size, structure, level, reservoir types, content and characteristics of the hydrocarbon deposit are determined in general terms based on the results of the geological and geophysical exploration and information on the more fully explored portions of a deposit. Category C₂ reserves are used to determine the development potential of a field and to plan geological, exploration and production activities.

Category C₃ resources are prospective resources prepared for the drilling of (i) traps within the oil- and gas-bearing area, delineated by geological and geophysical exploration methods tested for such area and (ii) the formation of explored fields which have not yet been exposed by drilling. The form, size and stratification conditions of the assumed deposit are estimated from the results of geological and geophysical research. The thickness, the reservoir characteristics of the formations, the composition and the characteristics of hydrocarbons are assumed to be analogous to those for explored fields. Category C₃ resources are used in the planning of prospecting and exploration work in areas known to contain other reserve bearing fields.

Category D₁ resources are calculated based on the results of regional geological, geophysical and geochemical research and by analogy with explored fields within the region being evaluated. Category D₁ resources are reserves in lithological and stratigraphic series that are evaluated within the boundaries of large regional structures confirmed to contain commercial reserves of oil and gas.

Category D₂ resources are calculated using assumed parameters on the basis of general geological concepts and by analogy with other, better studied regions with explored oil and gas fields. Category D₂ resources are reserves in lithological and stratigraphic series that are evaluated within the boundaries of large regional structures not yet confirmed to contain commercial reserves of oil and gas. The prospects for these series to prove to be oil- and gas-bearing are evaluated based on geological, geophysical and geochemical research.

The evaluation of gas reserves in newly discovered natural gas or oil-and-gas deposits is carried out under the Russian reserves system using the volume method. The volume method determines the volume of reserves by examining the filtration and capacitive parameters of the deposit based on (i) the area of the deposit, (ii) the effective depth of hydrocarbon saturation, and (iii) the porousness of the deposit and the level of saturation of the hydrocarbons, taking into account thermobaric conditions.

The evaluation of natural gas reserves in deposits already under development is carried out under the Russian reserves system using both the volume method and the material balance method. The material balance method takes into account temporal changes in the effective reservoir pressure as a result of the extraction of the hydrocarbons and the resultant influx of water.

PRMS standards

While the Russian reserves system focuses on the actual physical presence of hydrocarbons in geological formations, and reserves are estimated based on the probability of such physical presence, PRMS Standards take into account not only the probability that hydrocarbons are physically present in a given geological formation but also the economic viability of recovering the reserves (including such factors as exploration and drilling costs, ongoing production costs, transportation costs, taxes, prevailing prices for the products, and other factors that influence the economic viability of a given deposit).

Under PRMS Standards, reserves are classified as "proved," "probable" and "possible."

Proved reserves include reserves that are confirmed with a high degree of certainty through an analysis of the development history and/or volume method analysis of the relevant geological and engineering data.

Proved reserves are those that, based on the available evidence and taking into account technical and economic factors, have a better than 90% chance of being produced.

Probable reserves are those reserves in which hydrocarbons have been located within the geological structure with a lesser degree of certainty because fewer wells have been drilled and/or certain operational tests have not been conducted. Probable reserves are those reserves that, on the available evidence and taking into account technical and economic factors, have a better than 50% chance of being produced.

Possible reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the Proved plus Probable plus Possible reserves estimate.

An evaluation of proved, probable and possible natural gas reserves naturally involves multiple uncertainties. The accuracy of any reserves evaluation depends on the quality of available information and engineering and geological interpretation. Based on the results of drilling, testing and production after the audit date, reserves may be significantly restated upwards or downwards. Changes in the price of natural gas, gas condensate or crude oil may also affect our proved and probable reserves estimates, as well as estimates of our future net revenues and present worth, because the reserves are evaluated, and the future net revenues and present worth are estimated, based on prices and costs as of the audit date.

Differences between PRMS Standards and SEC Standards

PRMS Standards differ in certain material respects from SEC Standards. The SEC has recently adopted revisions to the SEC Standards that make such regulations more consistent with PRMS Standards in certain respects. These revisions will become effective on January 1, 2010. The principal differences between PRMS Standards and the current SEC Standards include the following:

Certainty of existence. Under PRMS Standards, reserves in undeveloped drilling sites that are located more than one well location from a commercial producing well may be classified as proved reserves if there is "reasonable certainty" that they exist. Under current SEC Standards, it must be "demonstrated with certainty" that reserves exist before they may be classified as proved reserves. The revisions to the SEC Standards establish a uniform standard of "reasonable certainty" that applies to all proved reserves, regardless of location or distance from producing wells.

Duration of licence. Under PRMS Standards, proved reserves are projected for the period of the efficient development of the evaluated fields. Under SEC Standards, crude oil and gas deposits may not be classified as proved reserves if they will be recovered after the expiration of a current licence period unless the licence holder has the right to renew the licence and there is a demonstrated history of licence renewal. The absence of an absolute legal right to an extension and lack of historical support prevents us from concluding that the extractable reserves in our fields for periods past the expiration of the primary terms of these licences could be considered proved under SEC Standards. We have not reviewed our fact pattern with the SEC and therefore do not have definitive guidance on whether in our circumstances such extractable reserves could be considered proved under SEC Standards.

Accordingly, information relating to our estimated proved natural gas, gas condensate and crude oil reserves under PRMS Standards is not necessarily indicative of information that would be reported under SEC Standards. In addition, although the revised SEC Standards allow for voluntary disclosure of "probable" and "possible" reserves after January 1, 2010, current SEC Standards do not permit the presentation of reserves other than proved reserves.

If we applied SEC Standards, these differences could potentially cause the amount of estimated proved natural gas, gas condensate and crude oil reserves reported by us under SEC Standards to be lower than would otherwise be reported under PRMS Standards. An eventual decrease in the amount of natural gas, gas condensate and crude oil reserves reported by us could, if material, affect certain financial data reported by us in our consolidated financial statements in future periods.

Russian Regulation

The Russian legal system's rapid evolution during the last 15 years is particularly evident in the context of natural gas industry regulation. Below is a brief overview of some key aspects of the current regulatory regime for the natural gas and oil industries.

The regulation of legal and economic relations in the Russian natural gas industry is based on the following legislation: the Constitution, the Civil Code, the Subsoil Resources Law, the Natural Monopoly Law, the Gas Supply Law, the Gas Export Law and the Federal Law "On the Continental Shelf of the Russian Federation" No. 187-FZ dated November 30, 1995, (the "Continental Shelf Law"). The most important piece of legislation is the Gas Supply Law, which establishes a legal, economic and organisational framework for natural gas supply in the Russian Federation and is directed at meeting state needs for strategic energy resources.

Under the Gas Supply Law, Russian federal authorities have jurisdiction over natural gas supplies, including, *inter alia*, the development and implementation of Government policy on natural gas supply, the regulation of strategic natural gas reserves, control over the industrial and environmental safety of the industrial sites of the natural gas supply systems, standardisation, metrological support, and certification of natural gas supply.

With respect to gas supply, the Government is entitled to: (i) set the procedure for forming and approving the projected natural gas production and sales balance in Russia, (ii) determine the level of natural gas prices and natural gas transportation tariffs, (iii) regulate natural gas deliveries, (iv) approve gasification programmes in Russia, (v) set procedures for providing independent organisations with access to the natural gas transportation and distribution networks, and (vi) define the categories of customers to whom natural gas deliveries cannot be restricted or suspended.

The Ministry of Industry and Trade is a federal executive authority responsible for, among other things, implementing Government civilian and military industry policy, the legal regulation of certain sectors of industry, supporting industrial production exports and the state regulation of foreign trade (except for tariff and customs regulation).

The Ministry of Energy is responsible for Government fuel and energy industry policy, legal regulation of the energy sector, providing state services, the management of state property in the energy sector and the use of energy resources.

The Ministry of Natural Resources and Ecology is a federal executive body responsible in the sphere of natural gas supply for the development of Government policy and legal regulation of the use, study, reproduction and protection of natural resources, subsoil use safety, industrial security and environmental monitoring and protection.

The Constitution of Russia stipulates that the use of subsoil is under the joint jurisdiction of the federal and regional authorities.

Subsoil licensing

In 1992, the Subsoil Resources Law introduced a licensing system governing the geological survey, exploration and production of natural resources from the subsoil in Russia. Under the Subsoil Resources Law, licences for fields and subsoil plots were awarded through auctions or tenders conducted by the Committee on Geology and the Use of Mineral Resources of the Government, together with the legislative branch of the relevant constituent entity of the Russian Federation. Currently, licences are awarded by the federal authority, which in accordance with Governmental Resolution No. 293 of June 17, 2004, as amended, is the Federal Agency for Subsoil Use. In April 2008, amendments to the Subsoil Resources Law became effective. Among other things, the amendments provide criteria for determining subsoil plots of federal importance and defined grounds for establishment and termination of rights to use subsoil plots of federal importance. The law provides that subsoil plots of federal importance are awarded primarily through auctions or tenders. The most important criterion for determining an auction winner is the amount of the proposed payment for the right to use the subsoil. In a tender, such factors as the scientific and technical level of programmes for geological exploration and subsoil use, extraction rates, contribution to social and economic progress of a territory, timing for implementation of the respective programmes, the efficiency of environmental actions, and safety and national security considerations are first taken into account.

In August 2008, another set of amendments to the Subsoil Resources Law became effective. These amendments expressly provide for the issuance of combined subsoil use licences for geological survey, exploration and production on subsoil areas of federal importance on the continental shelf without an auction or tender.

There are several categories of licences applicable to the geological survey, exploration and production of natural resources, including: (i) licences for geological survey; (ii) licences for exploration and production of natural resources; and (iii) combined licences for geological survey, exploration and production of natural resources. Under the Subsoil Resources Law, licences are granted either for the term stipulated in the licence or for an indefinite term. Geological survey licences may have a maximum term of five years (and 10 years for geological survey of subsoil areas of internal sea waters, territorial seas and the continental shelf); exploration and production licences may have a term of the expected operational life of the field based on a feasibility study; and production licences for underground waters may have a maximum term of 25 years; licences for the production of natural resources based on the short-term right to use subsoil plots may have a maximum term of one year. The Subsoil Resources Law allows the subsoil user to request an extension of the existing licence in order to complete either the development of the field or the procedures necessary to vacate the land once the exploration, assessment and exploitation of the subsoil is complete, subject to compliance with the terms and conditions of the licence. Indefinite term licences are provided, in particular, for the construction and operation of waste burial facilities and underground storage facilities.

In accordance with the Subsoil Resources Law, a licence may not be transferred to another entity. The right for subsoil use can be transferred to another entity in limited circumstances, in particular, such as restructuring, bankruptcy reorganisation, assignment of the licence to a subsidiary if the holder of the right for subsoil use has no less than a 50% interest at the time of the right transfer, or certain transfers within an affiliated group of companies. A licence is reissued when the right for subsoil use is transferred. In this case the terms and conditions of subsoil use provided by the previous licence are not subject to revision. A transfer of the right to use a subsoil plot and the re-issuance of the licence, which has been granted on the basis of a production sharing agreement, is regulated by the Law "On Production Sharing Agreements."

Moreover, the Subsoil Resources Law prohibits the transfer of a subsoil area of federal importance to any entity in which a foreign investor has the ability to (i) directly or indirectly control 10% or more of its voting shares, (ii) control its management by contract or otherwise, or (iii) appoint its chief executive officer or more than 10% of its executive officers or members of its board of directors or other management committee. In exceptional circumstances and in accordance with the Government's resolutions, the transfer of rights to use subsoil plots of federal importance to entrepreneurial entities indicated in the law may be permitted.

Under a licensing agreement, the licensee assumes certain undertakings, including obligations with respect to the period and volume of exploration, provision of pre-project and project documentation, payments

for subsoil use, projected extraction volume of natural resources, limitation of environmental pollution within the permitted limits and industrial safety. When a licence expires, the licensee, at its own cost, shall restore the relevant subsoil plot to a condition which is adequate for future use. The licensee can be fined or the licence can be revoked if the subsoil plot remains unused for a certain period of time, as a result of repeated or significant breaches of the law or the conditions of the licence, in case of a direct threat to the lives or health of the people working or residing in the area where licensed activities are carried on, in case of emergency or other circumstances.

Most of the conditions provided by licensing agreements are based on mandatory provisions of Russian law; however, other provisions may be negotiated by the parties subject to mandatory provisions of the Subsoil Resources Law.

A holder of a licence for geological survey of natural resources must make regular payments for subsoil use based on economic and geographic conditions, size of the subsoil area, period of exploration, geological profile of the subsoil plot and degree of risk. The payments for the right to use the subsoil are fixed according to phases and stages of geological process and charged on rates basis. Subsoil use also requires making lump sum payments when certain events specified in the licence occur. These are generally payments for the right to use the subsoil (licensing fee).

These payments for subsoil are in addition to relevant tax obligations applicable to the licence holder in accordance with general tax legislation.

Regulating the activities of natural monopolies

The Natural Monopoly Law defines "natural monopoly" as a condition of the commodities market in which the demand for products is satisfied more effectively in the absence of competition and in which another product cannot readily be substituted for the monopoly product. The Natural Monopoly Law sets out, *inter alia*, a regime for the regulation of entities which have a natural monopoly over natural gas transportation. It also establishes an authority which supervises:

- transactions involving the acquisition by a natural monopoly entity of title to (or the rights to use) assets unrelated to the industry in which the natural monopoly entity operates ("durable means of production and distribution"), where the value of such assets exceeds 10% of the natural monopoly entity's own capital (as calculated in accordance with its latest audited balance sheet);
- investments in production or distribution of goods, not related to the industry of the natural monopoly entity, whose value exceeds 10% of the natural monopoly entity's own capital (as calculated in accordance with its latest audited balance sheet);
- sales, leases or other transactions whereby the natural monopoly entity purchases title to (or the rights to use) assets used in the industry that it monopolises where the value of such assets exceeds 10% of the value of the natural monopoly entity's own capital (as calculated in accordance with its latest audited balance sheet).

The Federal Antimonopoly Service (FAS) supervises the activities of natural monopolies. The FTS is charged with the authority to set tariffs.

The relevant authority can adopt binding decisions in the case of a breach of the law and issue binding instructions to a natural monopoly to prevent a breach of the law, including instructions on eliminating the consequences of a breach.

The principal methods of regulating the activities of natural monopolies by relevant supervising authorities are:

- price regulation by setting prices (tariffs) or price limits; and
- identifying consumers entitled to obligatory services and (or) setting natural monopoly minimum supply levels for such consumers (with a view to protecting the rights and legal interests of citizens, state security, the environment and cultural values).

As a natural monopoly, we must submit ongoing reports on our activities and drafts of capital investment plans to the relevant supervisory authority pursuant to the Natural Monopoly Law.

Federal Law dated December 25, 2008 No. 281-FZ introduced changes to Federal Law "On Natural Monopolies." In order to promote transparency in activity and regulation, the changes require natural monopolies, including Gazprom, to grant free access to the information on their activity in accordance with the standards of disclosure approved by the Government. The information on the regulated activity of the natural monopolies include the following: (i) information on prices (tariffs) for regulated goods and services; (ii) information on principal operational and financial activity, which is regulated; (iii) information on basic consumer characteristics of the regulated goods and services; (iv) information on technical access to the regulated goods and services, or the lack thereof; (v) information on the terms and conditions of supply of the regulated goods and services; (vi) information on investment plans and performance reports, etc.

The supervisory authority has the right: (i) to regulate natural monopoly entities and to use methods of regulation contemplated by the Natural Monopoly Law including price regulation; (ii) to instruct natural monopoly entities to stop violations and mitigate its consequences, including entering into contracts with those consumers entitled to obligatory service, to instruct natural monopoly entities to make amendments to existing contracts, to instruct natural monopoly entities to transfer revenues from activities which contravene the existing federal laws; and (iii) to perform other acts contemplated by federal laws.

The UGSS

The Gas Supply Law defines the UGSS as a centrally managed, technologically and economically regulated system of gas production, processing, transportation, storage and supply.

Gazprom is currently the owner of the UGSS. Under the Gas Supply Law, the owner of the UGSS has a number of responsibilities. To ensure reliable gas supply and compliance with international treaties of the Russian Federation and gas delivery contracts, Gazprom maintains and develops the network of UGSS facilities, monitors and manages the function of its facilities, procures the use of equipment and processes for power-saving and environmental safety at its industrial sites, takes action to ensure industrial and ecological safety within the UGSS and operates disaster management systems.

The Gas Supply Law does not permit the division of the UGSS. The liquidation of its owner can only be carried out if a federal law is issued permitting such liquidation. The Gas Supply Law was amended in December 2005 to eliminate the prohibition on foreign persons and companies from owning more than 20% of the owner of the UGSS's (i.e. Gazprom's) issued ordinary shares. As amended, the Gas Supply Law now requires that at least 50% plus one ordinary share of the company owning the UGSS must be owned by the Russian Federation or joint stock companies in which the Russian Federation owns at least a 50% plus one share interest, and may be disposed of by federal law. Currently, the Russian Federation controls more than 50% of Gazprom's shares.

Production sharing agreements

Production sharing agreements are commercial arrangements between the Russian Federation and investors relating to exploration and development and the sharing of production of mineral resources between

parties. Under a production sharing agreement, an investor is exempted from a number of taxes and other mandatory payments in exchange for giving the Russian Federation a portion of its production, generally, after the investor has recovered its development costs.

The Federal Law No. 225 FZ "On Production Sharing Agreements" dated December 30, 1995, as amended (the "PSA Law"), came into force in January 1996. It established the principal legal framework for state regulation of production sharing agreements relating to oil and gas field development and production. The PSA Law contains rules purporting to protect investors against adverse changes in federal and regional laws and regulations.

The PSA Law provides that operations conducted under a production sharing agreement pursuant to the PSA Law will be governed by the production sharing agreement itself and will not be affected by contrary provisions of any other legislation. Furthermore, production sharing agreement entered into by the Russian Federation prior to the enactment of the PSA Law (e.g., Sakhalin I, Sakhalin II and Kharyaga) are "grandfathered" to the PSA Law so that their provisions will be effective even if they are inconsistent with the PSA Law.

In accordance with Order of the Government dated December 22, 2009 No. 2026-r, Gazprom was appointed as authorised entity for supplies of natural gas owed to the Russian Federation under Sakhalin I and Sakhalin II projects to the consumers of the Far East Federal District in consideration for royalty payments and a share in profitable goods.

Transportation and supply of gas

The relationship between natural gas suppliers and off-takers is governed by the Gas Supply Law, the Regulation on Natural Gas Supplies in the Russian Federation approved by Government Resolution No. 162 dated February 5, 1998, as amended, and other regulations.

A right of priority to enter into natural gas supply agreements is given to off-takers that purchase natural gas for the Government, utility consumers and households, and certain off-takers wishing to extend their existing natural gas supply agreements.

In accordance with Government Resolution No. 858 dated July 14, 1997, as amended "On the Provision of Access of Independent Organisations to the Gas Transportation System of OAO Gazprom," Gazprom is obligated to provide independent suppliers with non-discriminatory access to available UGSS transportation capacity in Russia. This requirement is subject to natural gas from independent suppliers being of sufficient quality and the availability of connecting and branch pipelines to consumers.

In accordance with the Gas Supply Law, consumers are obliged to pay for natural gas supplies and transportation services. If consumers fail to make such payments, suppliers have the right to limit or suspend natural gas supplies to such consumers in accordance with specific procedures provided for by a number of Government resolutions. Government Resolution No. 364 dated May 29, 2002 provides for special terms and conditions of gas delivery to institutions responsible for national security. The supplier may not suspend or limit gas supplies below the limits provided by the state-related customer for its affiliated institutions.

Gas exports

Pursuant to the Gas Export Law, as the owner of the UGSS, we have the exclusive right to export natural gas or liquefied natural gas produced in any hydrocarbon field within Russia. However, this exclusivity requirement does not apply to the export of gas produced under production sharing agreements that were entered into before the Gas Export Law came into effect.

Transportation of crude oil and petroleum products

The trunk pipelines for transportation of crude oil and petroleum products in Russia are controlled by Transneft which is a state-controlled monopoly. Pursuant to the Natural Monopolies Law, pipeline terminal access rights are allocated among oil producers and their parent companies in proportion to the volumes of oil produced and delivered to the Transneft pipeline system (and not in proportion only to oil production volumes).

The Ministry of Energy approves quarterly plans that detail the precise volumes of oil that each oil producer can pump through the Transneft system. Once the access rights are allocated, oil producers generally cannot increase their allotted capacity in the export pipeline system, although they have limited flexibility in altering delivery routes. Oil producers are generally allowed to assign their access rights to others.

Prices and tariffs

Pricing of gas produced by Gazprom and its affiliates, as well as rates for gas transportation services through trunk gas pipelines operated by Gazprom, are regulated and supervised by the Russian Federation pursuant to the Gas Supply Law and Natural Monopoly Law, as well as certain governmental regulations, such as Government Resolution No. 239 "On Measures to Stabilise State Regulation of Prices (Tariffs)" dated March 7, 1995, as amended, and Government Resolution No. 1021 "On State Regulation of Gas Prices and Tariffs for Gas Transportation in the Territory of the Russian Federation" dated December 29, 2000, as amended. In accordance with the Gas Supply Law, the Government is authorised, and has implemented such right, to substitute service tariffs for gas transportation through pipelines, which is a natural monopoly activity, with the regulation of wholesale natural gas prices for end users that can use it as fuel and raw material as well as tariffs on gas transportation services for independent organisations. Currently, the Government regulates wholesale natural gas prices, tariffs for gas transportation services through trunk pipelines for independent organisations, tariffs for gas transportation through pipelines, tariffs for gas transportation through supply networks, and payments for the supply and marketing services rendered by gas distribution companies to the population. Therefore, state agencies set prices (tariffs) throughout the whole system of gas supply for Russian users.

Tariffs charged to unaffiliated third parties for the transportation of natural gas through our trunk pipelines are established by the FTS. See "Gazprom—Transport." A tariff system consists of (i) a payment for the use of natural gas pipelines, which depends on the regions of input and output to and from the gas transportation system and (ii) a payment for transportation of mcm per 100 km.

Environmental requirements

Russian environmental legislation establishes a "pay-to-pollute" regime. According to the Decree of the President of the Russian Federation No. 724 of May 12, 2008, as amended, on the system and structure of federal executive bodies, legal regulation with respect to control and surveillance over environmental use and protection is a function of the Ministry of Natural Resources and Ecology, and according to the Resolution of the Government No. 717 of September 13, 2010, the execution of control over environmental use and protection is the function of the Federal Service for Surveillance in the Sphere of Environmental Use. Fees are assessed for both pollution within the limits agreed on emissions and effluents and for pollution in excess of these limits. There are additional fines for certain other breaches of environmental regulations. The environmental protection legislation contains an obligation to make compensation payments to the budget for all environmental losses caused by pollution. In the event of a dispute concerning losses caused by breaches of environmental laws and regulations, the prosecutor's office or other authorised governmental bodies may bring suit. Courts may impose clean-up obligations, subject to the agreement of the parties, in lieu of or in addition to imposing fines.

Exploration licences and production licences generally require certain environmental commitments. Certain breaches of environmental commitments, however, may result in a licensing state body imposing early termination and/or suspension or limitation of the right of subsoil use. A subsoil user has the right to appeal a decision of a licensing body in court or with an administrative body.

Health and Safety

The principal law regulating industrial safety is the Federal Law No. 116-FZ of July 21, 1997 "On Industrial Safety of Hazardous Industrial Facilities" (as amended) (the "Safety Law"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities related to exploration and production of gas, among other things, are carried out. The Safety Law also contains a comprehensive list of hazardous substances and their permitted concentrations, and extends to facilities and sites where these substances are used.

Our activities include operation of certain hazardous industrial sites regulated by the Federal Service for Environmental, Technological and Nuclear Supervision (the "Rostekhnadzor"). Any construction, reconstruction, liquidation or other activities in relation to such regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of regulated industrial sites is prohibited unless reviewed by a licensed expert and approved by the Rostekhnadzor. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of the Russian Federation (the "Labour Code"). In particular, they must limit access to such sites to certified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating regulated industrial sites. The Safety Law also requires these companies to enter into contracts with professional demolition companies or create their own demolition services in certain cases, conduct personnel training programs, create systems to cope with and inform respective state authorities of accidents and maintain these systems in good working order. In certain cases, companies operating regulated industrial sites must also prepare declarations of industrial safety which would summarise the risks associated with operating a particular regulated industrial site and measures the company has taken and will take to mitigate such risks and use such site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein, and approved and registered with the Federal Service for the Supervision of the Use of Natural Resources.

In case of an accident, a special commission led by a representative of the Rostekhnadzor conducts a technical investigation of the cause. The company operating the industrial facility where the accident took place must bear all costs of the investigation. The officials of the Rostekhnadzor have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Rostekhnadzor may suspend or terminate a company's operations or impose administrative liability on a company or its officials.

Technical devices that are used at hazardous industrial facilities, including those of foreign manufacture, must comply with the Russian industrial safety requirements and, therefore, are subject to confirmation that they conform to such requirements. In addition, the use of such technical devices is subject to permission by the Rostekhnadzor or its territorial branches (depending on the type of technical device).

Any company or individual violating industrial safety rules may incur administrative and/or civil liability and individuals may also incur criminal liability. A company that violates safety rules in a way that adversely impacts the health of an individual may also be liable to compensate the individual for lost earnings, as well as health-related damages and in certain cases, its activity may be suspended.

Employment and Labour Regulation

Labour matters in Russia are primarily governed by the Labour Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws. Regulation of labour relation in territories with harsh climatic conditions In respect to certain territories with harsh climatic conditions Russian legislation establishes additional regulations to protect the interest of employees. Under Law of the Russian Federation No. 4520-I "On State Guarantees and Compensations for Persons Working and Residing in the Far North Regions and Areas of Equal Status" dated 19 February 1993, the employees working in certain territories with harsh climatic conditions are entitled to certain additional benefits, including the regional coefficients pursuant to which the salary and regular bonuses of such employees are increased (the amount of coefficient differs for each territory) and additional vacation days.

Continental shelf and the exclusive economic zone

Offshore hydrocarbon operations in areas on the continental shelf are governed by the Continental Shelf Law.

The "exclusive economic zone" of the Russian Federation is the marine area located outside Russia's territorial sea and limited by the 200 nautical miles from the baselines from which the width of the territorial sea is measured (or as otherwise provided by international law or treaty), including all islands located within this area except for mountain rocks ineligible for living and economic activities. Oil and gas exploration and extraction activities that are carried out within this area are governed by the Federal Law No. 191-FZ "On the Exclusive Economic Zone of the Russian Federation," dated December 17, 1998, as amended (the "EEZ Law"), the Subsoil Resources Law, the Continental Shelf Law, the PSA Law and any international treaties to which the Russian Federation is a party.

The EEZ Law focuses on protecting and monitoring the natural resources of the exclusive economic zone, including fish, sea mammals, molluscs and crustaceans, as well as minerals and tides. The EEZ Law establishes a framework of protective measures with respect to dumping, accidents at sea, and protection and conservation of ice-bound and other specially designated areas. Users of resources in the exclusive economic zone make certain payments in accordance with Russian legislation.

Foreign Investments

On April 29, 2008, the Federal Law No. 57-FZ "On The Order Of Making The Foreign Investment Into Commercial Entities Which Are Of Strategic Importance For Ensuring The Country's Defence And The State Security" (the "Foreign Investment Law") was adopted. The Foreign Investment Law sets forth certain restrictions relating to foreign investments in Russian companies of strategic importance for national defence and security. Among others, companies engaged in the geological exploration and/or extraction of minerals at the subsoil sites of federal significance are considered to be strategically important and foreign investments in such companies are subject to restrictions set out by the Foreign Investment Law.

Under the Foreign Investment Law, a foreign investor which contemplates obtaining control over a Russian company of strategic importance must follow special procedures for approval of such transaction. A failure to comply with these procedures shall render any transaction to acquire control over a strategic company void.

For purposes of the Foreign Investment Law, Gazprom is a company of strategic importance for national defence and security, but we are exempted from the approval procedures contained therein because the Russian Federation directly or indirectly holds more than 50% of our voting shares. It remains uncertain, however, whether provisions of the Foreign Investment Law could apply to our subsidiaries or affect future corporate restructuring, if any.

Regulation Abroad

Gas Directive

Gas Directive 2003/55/EU (the "Gas Directive") was adopted by the European Parliament and the Council of the European Union on June 26, 2003, and effective July 1, 2004, the Gas Directive replaced the 1998 Gas Directive.

The Gas Directive established common rules for the transmission, distribution, supply and storage of natural gas. The Gas Directive sets out rules for the organisation of the natural gas sector (including LNG), access to the market, the operation of transmission and distribution systems, and the criteria and procedures for authorising the transmission, distribution, supply and storage of natural gas in order to open domestic gas markets to competition. Since July 1, 2007, all customers have the right to choose their supplier. The Gas

Directive only provides for regulated access to gas transportation and distribution systems and to LNG terminals. Such access is based on the tariffs that become effective only upon their publication and shall apply uniformly to all consumers. The implementation of the Gas Directive led to significant liberalisation of the European natural gas market, going further than the Gas Directive's minimum requirements.

According to the statistical survey "2010 Natural Gas Year in Review. CEDIGAZ' First Estimates (April 2011)", Russia is the largest exporter of natural gas to western Europe, followed by Norway, the Netherlands and Algeria. EU projections show that in order to meet demand for natural gas and to compensate for the decline in the production of natural gas within the EU, there will be an increasing dependence upon imports from outside the EU. The electricity industry and other sectors of the economy are increasingly using natural gas because of its favourable ecological and technological characteristics, which has increased demand.

As a result of the liberalisation of the EU natural gas market, short-term contracts and spot transactions involving natural gas have become more popular. Continued development of short-term contracts and spot transactions has had in the past and may continue to have a significant effect on the state of the market. The long-term "take-or-pay" contracts, under which most of Europe's natural gas is supplied by the Group and other traditional exporters, however, provide for secure and stable natural gas supplies while at the same time balancing the interests of both exporters and importers. Such contracts are also the main element of major natural gas export financing projects, which provide producers with capital needed for investment in gas field exploration and development and transportation infrastructure. At the same time, these long-term contracts also ensure that gas importers have access to the required quantities of natural gas over long periods at time. In light of anticipated import demand for natural gas in the European countries and the liberalisation of the gas market, long-term contracts are likely to be of continued importance.

In July 2009, the European Council adopted a new energy Directive which provides for the further liberalisation of the EU energy market. In particular, three alternatives for the vertical disintegration of existing companies operating in the EU were approved. These alternatives establish various degrees of participation of energy producers in ownership and management of the transportation networks, from certain restrictions in managing the networks imposed by a national regulator up to a mandatory disposition of assets or requirement to transfer control over assets to an independent operator. The EU member states must choose one of the alternatives within 18 months after adoption and conform their national legislation to the Directive. Our principal export routes in the territory of the EU are technically exempted from the vertical disintegration provisions of the Directive. However, we can not predict with any certainty the impact the Directive may have on our joint ventures, which own transportation facilities and operate in the EU. It is also possible, however, that vertical disintegration would provide us an opportunity for additional access to consumers in the EU market.

INDEPENDENT AUDITORS

The consolidated financial statements of Gazprom as of and for the years ended December 31, 2010, 2009 and 2008, included in this Prospectus, have been audited by ZAO PricewaterhouseCoopers Audit, independent auditors, White Square Office Center, 10 Butyrsky Val, 125047 Moscow, Russian Federation, as stated in their reports appearing herein.

LISTING AND GENERAL INFORMATION

1. It is expected that the ADSs will be admitted to the Official List on or about October 5, 2011. Application has been made for the ADSs to be traded on the Regulated Market of the London Stock Exchange. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
2. Gazprom was registered with the Moscow Registration Chamber on February 25, 1993 under Registration Number 022.726. On August 2, 2002, Gazprom was registered in the Unified State Register of Legal Entities and was allocated a state registration number 1027700070518. Gazprom has its registered office at: 16 Nametkina Street, 117997 Moscow and its telephone number is +7 495 7193001.
3. The following table shows the names and the nature of business of Gazprom's significant subsidiaries as included in the 2010 Financial Statements.

Name	Country of Incorporation	Interest in Share Capital
OOO Aviapredpriyatie Gazprom avia	Russia	100
OOO Arkticheskaya gazovaya kompaniya ****	Russia	-
ZAO ArmRosgazprom	Armenia	80
Vemex s.r.o	Czech Republic	50
OOO Vostokgazprom	Russia	100
OOO Gazovie Magistraly Tumeny	Russia	100
OOO Gazprom burenie	Russia	100
OOO Gazprom VNIIGAZ	Russia	100
GAZPROM Germania GmbH	Germany	100
Gazprom Gerosgaz Holding B.V.	Netherlands	100
Gazprom Global LNG Ltd.	United Kingdom	100
OOO Gazprom dobycha Astrakhan	Russia	100
OOO Gazprom dobycha Krasnodar	Russia	100
OOO Gazprom dobycha Krasnoyarsk	Russia	100
OOO Gazprom dobycha Nadym	Russia	100
OOO Gazprom dobycha Noyabrsk	Russia	100
OOO Gazprom dobycha Orenburg	Russia	100
OOO Gazprom dobycha Urengoy	Russia	100
OOO Gazprom dobycha shelf	Russia	100
OOO Gazprom dobycha Yamburg	Russia	100
Gazprom EP International B.V.	Netherlands	100
OOO Gazprom invest Vostok	Russia	100
OOO Gazprom invest Zapad	Russia	100
ZAO Gazprom invest Yug	Russia	100
OOO Gazprom investholding	Russia	100
OOO Gazprom inform	Russia	100
OOO Gazprom komplektaciya	Russia	100
Gazprom Libyen Verwaltungs GmbH	Germany	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100
OOO Gazprom mezhregiongaz (OOO Mezhregiongaz)	Russia	100
ZAO Gazprom Neft Orenburg	Russia	100
Gazprom Neft Trading GmbH **	Austria	100
OOO Gazprom Neft shelf	Russia	100
OOO Gazprom Neft	Russia	96
OOO Gazprom pererabotka	Russia	100
OOO Gazprom podzemremont Orenburg	Russia	100

Name	Country of Incorporation	Interest in Share Capital
OOO Gazprom podzemremont Urengoy	Russia	100
OOO Gazprom PKhG	Russia	100
Gazprom Sakhalin Holding B.V.	Netherlands	100
OOO Gaprom torgservis	Russia	100
OOO Gazprom transgas Volgograd	Russia	100
OOO Gazprom transgas Ekaterinburg	Russia	100
OOO Gazprom transgas Kazan	Russia	100
OOO Gazprom transgas Makhachkala	Russia	100
OOO Gazprom transgas Moskva	Russia	100
OOO Gazprom transgas Nizhny Novgorod	Russia	100
OOO Gazprom transgas Samara	Russia	100
OOO Gazprom transgas St. Petersburg	Russia	100
OOO Gazprom transgas Saratov	Russia	100
OOO Gazprom transgaz Stavropol	Russia	100
OOO Gazprom transgas Surgut	Russia	100
OOO Gazprom transgas Tomsk	Russia	100
OOO Gazprom transgas Ufa	Russia	100
OOO Gazprom transgas Ukhta	Russia	100
OOO Gazprom transgas Tchaikovsky	Russia	100
OOO Gazprom transgas Yugorsk	Russia	100
OOO Gazprom transgas-Kuban	Russia	100
Gazprom Finance B.V.	Netherlands	100
OOO Gazprom tsentrremont	Russia	100
OOO Gazprom Export	Russia	100
OOO Gazprom energo	Russia	100
OOO Gazprom energoholding	Russia	100
OOO Gazpromneft-Vostok **	Russia	100
ZAO Gazpromneft-Kuzbass **	Russia	100
OAO Gazpromneft-Noyabrskneftegaz **	Russia	100
OAO Gazpromneft-Omsk **	Russia	100
OAO Gazpromneft-Omskiy NPZ **	Russia	100
ZAO Gazpromneft-Severo-Zapad **	Russia	100
OOO Gazpromneftfinans **	Russia	100
OOO Gazpromneft-Khantos**	Russia	100
OOO Gazpromneft-Centr **	Russia	100
OOO GazpromPurInvest	Russia	100
OAO Gazpromregiongaz	Russia	100
OOO Gazpromtrans	Russia	100
OAO Gazpromtrubinvest	Russia	100
OOO Gazflot	Russia	100
ZAO Gazenergoprombank*****	Russia	-
OOO Georesurs	Russia	100
ZAO Gerogaz	Russia	-
OAO Daltransgaz	Russia	100
OOO Zapolyarneft**	Russia	100
OAO Zapsibgazprom	Russia	77
ZMB (Schweiz) AG	Switzerland	100
ZAO Kaunasskaya power station	Lithuania	99
OAO Krasnoyarskgazprom	Russia	75
OAO Moscovsky NPZ **	Russia	77
OAO Mosenergo	Russia	53
OAO Neftegastehnologiya*****	Russia	-
Naftna Industrija Srbije **	Serbia	51
OOO NK Sibneft-Yugra **	Russia	100
OOO Novourengoy GSC	Russia	100
OAO WGC-2	Russia	58
OAO WGC-6	Russia	61

Name	Country of Incorporation	Interest in Share Capital
ZAO Purgaz	Russia	51
OAo Regiongazholding	Russia	56
ZAO Rosshelf	Russia	57
ZAO RSh-Centr	Russia	100
OAo Severneftegazprom ***	Russia	50
OOO SeverEnergiya****	Russia	-
Sibir Energy Ltd (Sibir Energy plc)**	United Kingdom	78
OOO Sibmetahim	Russia	100
AKB Soyuz (OAo)	Russia	-
OAo Spetsgazavtotrans	Russia	51
OAo TGC-1	Russia	52
OAo Tomskgazprom	Russia	100
ZAO Urengoil Inc.****	Russia	-
OOO Faktoring-Finance	Russia	90
OAo Tsentrgez	Russia	100
OAo Tsentrenergogaz	Russia	66
ZAO Yamalgazinvest	Russia	100

Notes

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

** Subsidiaries of OAo Gazprom Neft. The company Sibir Energy plc was re-registered from being a public company to a private company in 2011.

*** Group's voting shares.

**** In November 2010 the Group sold its entire 51% controlling interest in OOO SeverEnergiya to OOO Yamal Razvitie. As the result, the Group has lost control over OOO SeverEnergiya and its subsidiaries.

***** In April 2010 ZAO Gazenergoprombank was reorganised in the form of the merger to OAo AB Rossiya.

4. If book-entry settlement is not available for the ADSs, the Depositary will appoint an agent in the United Kingdom.
5. For the Level I ADSs, the ISIN is US3682872078 and the CUSIP is US368287207. For the Rule 144A ADSs, the ISIN is US3682871088 and the CUSIP is US368287108. The LSE trading symbol for the Level I ADSs is 0GZD and the Rule 144A ADSs is 81JK. The ADSs are not denominated in any currency and have no nominal or par value.
6. This Prospectus will be made available to the public at the registered office of Gazprom, at 16, Nametkina Street, 117997 Moscow, the Russian Federation. In addition, the following documents will be on display during usual business hours for the life of this Prospectus:
 - a copy of the charter of Gazprom (English translation);
 - a copy of the audited consolidated financial statements of Gazprom for the years ended December 31, 2010, 2009 and 2008, together with the auditors' report relating thereto;
 - the unaudited consolidated interim condensed financial statements of Gazprom as of and for the three months ended March 31, 2011; and
 - a copy of the Deposit Agreement.
7. Except as disclosed under the section headed "Management's Discussion and Analysis of Financial Condition and Results of Operations — Debt Obligations— Recent developments" on page 89 of this Prospectus, there has been no significant change in the financial or trading position of the Gazprom Group since March 31, 2011 and no material adverse change in the prospects of Gazprom since December 31, 2010.

8. Except as disclosed under the section headed "Gazprom—Litigation and Investigations", neither Gazprom nor any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Gazprom is aware) during the twelve months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Gazprom Group.
9. ZAO PricewaterhouseCoopers Audit has rendered unqualified audit reports on the consolidated annual financial statements of the Gazprom Group prepared according to IFRS as of and for the year ended December 31, 2010, December 31, 2009 and December 31, 2008 with a comparison against the consolidated financial statements as at and for the years ended December 31, 2009, December 31, 2008 and December 31, 2007, respectively. Gazprom publishes unaudited consolidated interim condensed financial information prepared in accordance with IAS 34 for the three-month period ended March 31, the six-month period ended June 30 and for the nine-month period ended September 30 in 2010 and 2009. Gazprom does not publish audited or unaudited interim or year-end consolidated or non-consolidated financial statements prepared in accordance with U.S. GAAP. ZAO PricewaterhouseCoopers Audit is a member of the Institute of Professional Accountants of Russia and the Audit Chamber of Russia.
10. Any website referred to in this document does not form part of this Prospectus.

GLOSSARY OF SELECTED TERMS

"bbls"	Billions of barrels
"bboe"	Billion barrels of oil equivalent
"bcm"	Billion cubic meters, as measured under one atmosphere of pressure at 20C°
"Board of Directors"	Gazprom's board of directors, consisting of 11 members and appointed pursuant to the Joint Stock Companies Law and the Charter
"boe"	Barrel of oil equivalent
"CBR"	Central Bank of the Russian Federation
"central and eastern Europe"	For the purposes of this Prospectus: Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Former Yugoslav Republic of Macedonia, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia
"Charter"	Gazprom's Charter of May 31, 1996, as amended
"Constitution"	The constitution of the Russian Federation adopted on December 12, 1993
"Energy Charter Treaty"	Treaty between European states, the main objective of which is to assist in the development of the European energy market
"EU"	European Union
"Europe"	For the purposes of this Prospectus, central and eastern Europe and western Europe
"Europe and Other Countries"	For the purposes of this Prospectus, refers to countries other than Russia and the FSU countries
"FSU"	Excluding Russia, the countries which formerly comprised the Soviet Union: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan
"FTS"	Federal Tariffs Service of the Russian Federation, established pursuant to Decree No. 314 dated March 9, 2004 as the successor to, <i>inter alia</i> , the domestic gas price and transport tariff regulation functions of the Federal Energy Commission
"Gas Directive"	A directive adopted by the European Parliament and the Council, which came into force in August 1998 and was replaced by a further Gas Directive in June 2003, with the purpose of establishing common rules for the organisation and functioning of the European natural gas market
"General Meeting of Shareholders"	Gazprom's highest authority in accordance with its Charter, with exclusive power over various aspects of Gazprom's management
"GTS"	Gas Transportation System
"IFRS"	International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board
"International Energy Agency"	A forum with 28 member countries that serves as a forum in which to share energy information, coordinate energy policies and cooperate in the development of energy programmes, and is an authoritative source for energy statistics worldwide
"kW"	Kilowatt
"kWh"	Kilowatt hour
"Management Committee"	An executive body of Gazprom, which, along with the Management Committee Chairman, manages Gazprom's day-to-day affairs and implements the strategic plans of the Board of Directors
"mcf"	Thousand cubic feet
"mcm"	Thousand cubic meters, as measured under one atmosphere of pressure at 20C°
"mmbbls"	Millions of barrels
"mmboe"	Million barrels of oil equivalent
"mmcm"	Million cubic meters, as measured under one atmosphere of pressure at 20C°
"mtoe"	Million metric tons of oil equivalent
"NGV"	Natural gas vehicle
"OGKs"	Wholesale market generation companies

"PRMS Standards"	The Petroleum Resources Management System jointly published by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers
"Russia"	Russian Federation
"State Duma"	Lower chamber of the Russian parliament
"tcm"	Trillion cubic meters, as measured under one atmosphere of pressure at 20C°
"TGKs"	Territorial generation companies
"toe"	Metric ton of oil equivalent
"tce"	Metric ton of coal equivalent
"ton"	One metric ton
"UGSF"	Underground natural gas storage facility
"UGSS"	Unified Gas Supply System
"U.K."	United Kingdom
"U.S." or "United States"	United States of America
"western Europe"	For the purposes of this Prospectus: Andorra, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Greenland, Iceland, Republic of Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, The Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, Turkey and the United Kingdom

CONVERSION TABLE

metric measure	U.S. measure
1 bcm	35,316,000,000 cubic feet
1 ton.....	1,000 kilos, 2,204.6 pounds, 7.33 barrels of crude oil, 8.18 barrels of gas condensate
1 kilometre.....	Approximately 0.62 miles
1 metric ton of oil equivalent	25.2 quadrillion btus (British Thermal Units), approximately 1,125 mcm of natural gas
1 barrel of gas condensate..	1 barrel of oil equivalent (boe)
1 mcm of natural gas	5.89 barrels of oil equivalent (boe)
1 tce	867 cubic meters of natural gas

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

IFRS Consolidated Interim Condensed Financial Information as of and for the three months ended March 31, 2011 (unaudited) with a comparison against the IFRS Consolidated Interim Condensed Financial Information as of and for the three months ended March 31, 2010 (unaudited)	F-2
IFRS Consolidated Financial Statements as of and for the year ended December 31, 2010 with a comparison against the IFRS Consolidated Financial Statements as of and for the year ended December 31, 2009	F-31
IFRS Consolidated Financial Statements as of and for the year ended December 31, 2009 with a comparison against the IFRS Consolidated Financial Statements as of and for the year ended December 31, 2008	F-99
IFRS Consolidated Financial Statements as of and for the year ended December 31, 2008 with a comparison against the IFRS Consolidated Financial Statements as of and for the year ended December, 2007	F-169

ОАО ГАЗПРОМ

IFRS Consolidated Interim Condensed Financial Information as of and for the three months ended March 31, 2011 (unaudited) with a comparison against the IFRS Consolidated Interim Condensed Financial Information as of and for the three months ended March 31, 2010 (unaudited)



Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors of OAO Gazprom

Introduction

We have reviewed the accompanying consolidated interim condensed balance sheet of OAO Gazprom and its subsidiaries (the "Group") as of 31 March 2011 and the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the three month period then ended. Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

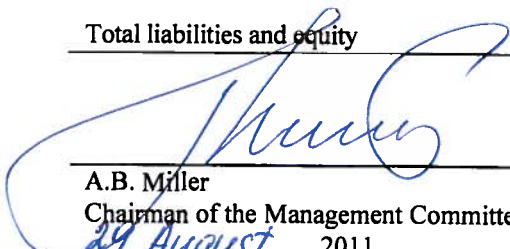
ZAO PricewaterhouseCoopers Audit

29 August 2011

Moscow, Russian Federation

OA O GAZPROM
IFRS CONSOLIDATED INTERIM CONDENSED BALANCE SHEET (UNAUDITED)
AS OF 31 MARCH 2011
(In millions of Russian Roubles)

Notes		31 March 2011	31 December 2010
	Assets		
	Current assets		
6	Cash and cash equivalents	444,356	440,786
6	Restricted cash	3,422	3,669
7	Short-term financial assets	26,338	7,435
8	Accounts receivable and prepayments	832,667	757,900
9	Inventories	267,478	325,739
	VAT recoverable	161,977	158,390
	Other current assets	<u>179,248</u>	<u>171,976</u>
		1,915,486	1,865,895
	Non-current assets		
10	Property, plant and equipment	5,590,829	5,486,429
11	Investments in associated undertakings and jointly controlled entities	766,757	757,157
12	Long-term accounts receivable and prepayments	524,173	436,432
13	Available-for-sale long-term financial assets	198,284	191,417
14	Other non-current assets	<u>512,480</u>	<u>498,663</u>
		<u>7,592,523</u>	<u>7,370,098</u>
	Total assets	9,508,009	9,235,993
	Liabilities and equity		
	Current liabilities		
	Accounts payable and accrued charges	495,120	702,640
	Profit tax payable	63,093	45,649
	Other taxes payable	114,095	71,920
	Short-term borrowings and current portion of long-term borrowings	179,398	190,845
	Short-term promissory notes payable	<u>51</u>	<u>207</u>
		851,757	1,011,261
	Non-current liabilities		
15	Long-term borrowings	1,108,829	1,124,395
22	Provisions for liabilities and charges	199,253	200,040
16	Deferred tax liabilities	337,743	333,143
	Other non-current liabilities	<u>30,063</u>	<u>30,793</u>
		<u>1,675,888</u>	<u>1,688,371</u>
	Total liabilities	2,527,645	2,699,632
	Equity		
17	Share capital	325,194	325,194
17	Treasury shares	(103,920)	(103,986)
	Retained earnings and other reserves	<u>6,485,560</u>	<u>6,028,543</u>
		6,706,834	6,249,751
	Non-controlling interest	<u>273,530</u>	<u>286,610</u>
	Total equity	6,980,364	6,536,361
	Total liabilities and equity	9,508,009	9,235,993

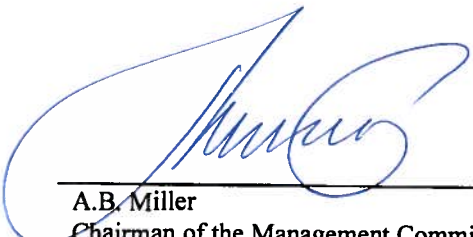

A.B. Miller
Chairman of the Management Committee
29 August 2011


E.A. Vasilieva
Chief Accountant
29 August 2011

The accompanying notes are an integral part of this consolidated interim condensed financial information.

OA O GAZPROM
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)
FOR THE THREE MONTHS ENDED 31 MARCH 2011
(In millions of Russian Roubles)

Notes		Three months ended 31 March	
		2011	2010
18	Sales	1,316,747	954,327
	Net loss from trading activity	(330)	(196)
19	Operating expenses	<u>(817,909)</u>	<u>(614,830)</u>
	Operating profit	498,508	339,301
20	Finance income	73,968	71,502
20	Finance expense	<u>(20,278)</u>	<u>(18,965)</u>
11	Share of net income of associated undertakings and jointly controlled entities	38,519	28,229
	Gains on disposal of available-for-sale financial assets	<u>349</u>	<u>1,629</u>
	Profit before profit tax	591,066	421,696
	Current profit tax expense	(108,864)	(55,053)
	Deferred profit tax expense	<u>(3,702)</u>	<u>(29,794)</u>
	Profit tax expense	<u>(112,566)</u>	<u>(84,847)</u>
	Profit for the period	478,500	336,849
	Other comprehensive income		
	Gains arising from change in fair value of available-for-sale financial assets, net of tax	7,173	9,793
	Share of other comprehensive (loss) income of associated undertakings and jointly controlled entities	(5,579)	11
	Translation differences	<u>(19,624)</u>	<u>(22,214)</u>
	Other comprehensive loss for the period, net of tax	(18,030)	(12,410)
	Total comprehensive income for the period	460,470	324,439
	Profit attributable to:		
	owners of OAO Gazprom	467,969	324,953
	non-controlling interest	<u>10,531</u>	<u>11,896</u>
		478,500	336,849
	Total comprehensive income attributable to:		
	owners of OAO Gazprom	451,528	314,630
	non-controlling interest	<u>8,942</u>	<u>9,809</u>
		460,470	324,439
21	Basic and diluted earnings per share for profit attributable to the owners of OAO Gazprom (in Roubles)	20.39	14.16


A.B. Miller
Chairman of the Management Committee
29 August 2011

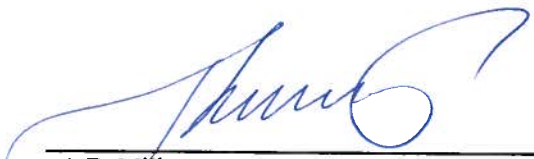

E.A. Vasilieva
Chief Accountant
29 August 2011

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ОАО ГАЗПРОМ
**IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED 31 MARCH 2011**

(In millions of Russian Roubles)

Notes	Three months ended 31 March	
	2011	2010
Operating activities		
Profit before profit tax	591,066	421,696
Adjustments to profit before profit tax		
Depreciation	66,968	61,502
Net unrealised foreign exchange gains	(66,470)	(59,254)
Interest expense	16,918	14,279
Interest income	(4,042)	(7,560)
Gains on disposal of available-for-sale financial assets	(349)	(1,629)
Share of net income of associated undertakings and jointly controlled entities	(38,519)	(28,229)
Charge for provisions	8,968	9,965
Derivatives loss	365	4,980
Other	(8,387)	2,836
Total effect of adjustments	(24,548)	(3,110)
Decrease in non-current assets	27	397
(Decrease) increase in non-current liabilities	(791)	100
Total effect of working capital changes	(83,610)	123,424
Profit tax paid	(91,719)	(59,391)
Net cash provided by operating activities	390,425	483,116
Investing activities		
Capital expenditures	(397,406)	(218,599)
Net change in loans made	(147)	2,501
23 Acquisition of subsidiaries, net of cash acquired	(24,560)	(38,114)
Investment in associated undertakings and jointly controlled entities	(619)	(18,254)
Proceeds from sale of interest in subsidiaries	3,650	-
Interest received	1,142	5,502
Change in available-for-sale long-term financial assets	(286)	(3,305)
Proceeds from associated undertakings and jointly controlled entities	10,111	25,208
Other	(651)	(5,000)
Net cash used for investing activities	(408,766)	(250,061)
Financing activities		
Proceeds from long-term borrowings	73,669	13,214
Repayment of long-term borrowings (including current portion)	(17,460)	(29,043)
Net repayment of short-term borrowings	(15,683)	(17,590)
Net repayment of promissory notes	(156)	(812)
Interest paid	(15,012)	(14,115)
Sales of treasury shares	66	-
Change in restricted cash	247	(536)
Net cash provided by (used for) financing activities	25,671	(48,882)
Effect of exchange rate changes on cash and cash equivalents	(3,760)	(7,588)
Increase in cash and cash equivalents	3,570	176,585
6 Cash and cash equivalents, at the beginning of reporting period	440,786	249,759
6 Cash and cash equivalents, at the end of reporting period	444,356	426,344


A.B. Miller
Chairman of the Management Committee
29 August 2011


E.A. Vasilieva
Chief Accountant
29 August 2011

The accompanying notes are an integral part of this consolidated interim condensed financial information.

OAo GAZPROM
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)
FOR THE THREE MONTHS ENDED 31 MARCH 2011
(In millions of Russian Roubles)

Note	Number of shares out- standing (billions)	Attributable to the owners of OAO Gazprom				Non- controlling interest	Total equity	
		Share capital	Treasury shares	Retained earnings and other reserves	Total			
Three months ended 31 March 2010								
	Balance as of 31 December 2009	22.9	325,194	(104,204)	5,105,525	5,326,515	322,806	5,649,321
	Profit for the period	-	-	-	324,953	324,953	11,896	336,849
	Other comprehensive income:							
	Gains arising from change in fair value of available-for-sale financial assets, net of tax	-	-	-	9,783	9,783	10	9,793
	Share of other comprehensive income of associated undertakings and jointly controlled entities	-	-	-	11	11	-	11
	Translation differences	-	-	-	(20,117)	(20,117)	(2,097)	(22,214)
	Total comprehensive income for the three months ended 31 March 2010	-	-	-	314,630	314,630	9,809	324,439
	Disposal of shares in subsidiaries	-	-	-	-	-	3,985	3,985
	Return of social assets to governmental authorities	-	-	-	(106)	(106)	-	(106)
	Balance as of 31 March 2010	22.9	325,194	(104,204)	5,420,049	5,641,039	336,600	5,977,639
Three months ended 31 March 2011								
	Balance as of 31 December 2010	23.0	325,194	(103,986)	6,028,543	6,249,751	286,610	6,536,361
	Profit for the period	-	-	-	467,969	467,969	10,531	478,500
	Other comprehensive income:							
	Gains arising from change in fair value of available-for-sale financial assets, net of tax	-	-	-	7,173	7,173	-	7,173
	Share of other comprehensive loss of associated undertakings and jointly controlled entities	-	-	-	(5,579)	(5,579)	-	(5,579)
	Translation differences	-	-	-	(18,035)	(18,035)	(1,589)	(19,624)
	Total comprehensive income for the three months ended 31 March 2011	-	-	-	451,528	451,528	8,942	460,470
23	Purchase of non-controlling interest in subsidiaries	-	-	-	5,656	5,656	(22,022)	(16,366)
	Net treasury shares transactions	(0.0)	-	66	-	66	-	66
	Return of social assets to governmental authorities	-	-	-	(167)	(167)	-	(167)
	Balance as of 31 March 2011	23.0	325,194	(103,920)	6,485,560	6,706,834	273,530	6,980,364


A.B. Miller
Chairman of the Management Committee
29 August 2011


E.A. Vasilieva
Chief Accountant
29 August 2011

The accompanying notes are an integral part of this consolidated interim condensed financial information.

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

1 NATURE OF OPERATIONS

OA O Gazprom and its subsidiaries (the “Group”) operate one of the largest gas pipeline systems in the world and are responsible for major part of gas production and high pressure gas transportation in the Russian Federation. The Group is also a major supplier of gas to European countries. The Group is also engaged in oil production, refining activities, electric and heat energy generation. The Government of the Russian Federation is the ultimate controlling party of OA O Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50% in OA O Gazprom.

The Group is involved in the following principal activities:

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

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

The gas business is subject to seasonal fluctuations with peak demand in the first and fourth quarters of each year. Typically approximately 30% of total annual gas volumes are shipped in the first calendar quarter.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

3 BASIS OF PRESENTATION

The consolidated interim condensed financial information is prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). This consolidated interim condensed financial information should be read together with the consolidated financial statements for the year ended 31 December 2010 prepared in accordance with International Financial Reporting Standards (“IFRS”).

The official Russian Rouble (“RR”) to US dollar (“USD”) exchange rates as determined by the Central Bank of the Russian Federation were 28.43 and 30.48 as of 31 March 2011 and 31 December 2010, respectively. The official RR to Euro exchange rates as determined by the Central Bank of the Russian Federation were 40.02 and 40.33 as of 31 March 2011 and 31 December 2010, respectively.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2010 and revised, as appropriate, to give effect to the new accounting standards described below.

Profit tax in the interim periods is accrued using a tax rate that would be applicable to expected total annual earnings.

New accounting developments

In 2011 the Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2011 and which are relevant to its operations.

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(a) Standards, Amendments or Interpretations effective in 2011

Amendment to IAS 32 “Financial Instruments: Presentation” (“IAS 32”) (issued in October 2008 and effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The application of this amendment did not materially affect the Group’s consolidated financial statements.

Amendment to IAS 24 “Related Party Disclosures” (“IAS 24”) (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The application of this amendment did not materially affect the Group’s consolidated financial statements.

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

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

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

Amendment to IFRS 3 “Business Combinations” (“IFRS 3”) (i) requires measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) provides guidance on acquiree’s share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination.

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

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

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

Amendment to IFRIC 13 “Customer Loyalty Programmes” clarifies measurement of fair value of award credits.

The application of these improvements did not materially affect the Group’s consolidated financial statements.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(continued)

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

Amendment to IFRS 7 “Financial Instruments: Disclosures” (issued in October 2010 and is effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The application of this amendment is not expected to materially affect the Group's consolidated financial statements.

Amendments to IAS 12 “Income taxes: Recovery of Underlying Assets” (“IAS 12”) (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC 21, “Income Taxes – Recovery of Revalued Non-Depreciable Assets”, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16 “Property, Plant and Equipment” (“IAS 16”) was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The application of this amendment is not expected to materially affect the Group's consolidated financial statements.

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

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

IFRS 10 “Consolidated financial statements” (“IFRS 10”) (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation - special purpose entities”. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 11 “Joint arrangements” (“IFRS 11”) (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), replaces IAS 31 “Interests in Joint Ventures” (“IAS 31”) and SIC 13 “Jointly Controlled Entities—Non-Monetary Contributions by Ventures”. Changes in the definitions have reduced the number of “types” of joint arrangements to two: joint operations and joint

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(continued)

ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated.

Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 12 “Disclosure of interest in other entities” (“IFRS 12”) (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 27 “Consolidated and Separate Financial Statements” and IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 13 “Fair value measurement” (“IFRS 13”) (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on the consolidated financial statements.

Amended IAS 27 “Separate Financial Statements” (“IAS 27”) (issued May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The application of this amendment is not expected to materially affect the Group’s consolidated financial statements.

Amended IAS 28 “Investments in Associates and Joint Ventures” (“IAS 28”) (issued May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), prescribes the accounting for investments in associates and contains the requirements for the application of the equity method to investments in associates and joint ventures. The Group is currently assessing the impact of the standard on the consolidated financial statements.

Amendments to IAS 1 “Presentation of financial statements” (“IAS 1”) (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to ‘statement of profit or loss and other comprehensive income’. The Group is currently assessing the impact of the standard on the consolidated financial statements.

Amended IAS 19 “Employee benefits” (“IAS 19”) (issued June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The Group is currently assessing the impact of the standard on the consolidated financial statements.

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

5 SEGMENT INFORMATION

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

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

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

Other activities have been included within “All other segments” column.

The inter-segment sales mainly consist of:

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

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

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

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

5 SEGMENT INFORMATION (continued)

	Production of gas	Transport	Distribution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Three months ended 31 March 2011									
Total segment revenues	<u>98,713</u>	<u>168,595</u>	<u>935,766</u>	<u>6,000</u>	<u>129,486</u>	<u>216,612</u>	<u>113,474</u>	<u>47,295</u>	<u>1,715,941</u>
Inter-segment sales	96,720	139,799	67,790	5,738	72,141	1,725	-	-	383,913
External sales	1,993	28,796	867,976	262	57,345	214,887	113,474	47,295	1,332,028
Segment result	<u>9,861</u>	<u>4,875</u>	<u>329,792</u>	<u>1,002</u>	<u>28,301</u>	<u>37,120</u>	<u>24,669</u>	<u>(3,974)</u>	<u>431,646</u>
Depreciation	21,742	66,873	1,515	2,456	11,606	5,793	4,503	4,350	118,838
Share of net income of associated undertakings and jointly controlled entities	397	2,737	4,868	-	14,951	1,666	-	13,900	38,519
Three months ended 31 March 2010									
Total segment revenues	<u>81,253</u>	<u>154,663</u>	<u>667,886</u>	<u>5,224</u>	<u>105,011</u>	<u>155,609</u>	<u>94,536</u>	<u>35,528</u>	<u>1,299,710</u>
Inter-segment sales	79,186	129,516	57,593	4,988	60,427	2,064	-	-	333,774
External sales	2,067	25,147	610,293	236	44,584	153,545	94,536	35,528	965,936
Segment result	<u>8,571</u>	<u>4,214</u>	<u>229,798</u>	<u>1,062</u>	<u>21,911</u>	<u>15,573</u>	<u>16,209</u>	<u>(2,806)</u>	<u>294,532</u>
Depreciation	19,240	65,581	1,552	2,271	11,436	5,323	4,228	4,491	114,122
Share of net income of associated undertakings and jointly controlled entities	2,662	75	5,360	-	9,991	593	-	9,548	28,229

A reconciliation of total operating segment results to total profit before profit tax in statement of comprehensive income:

	For the three months ended 31 March	
	2011	2010
Segment result	<u>431,646</u>	<u>294,532</u>
Difference in depreciation	51,870	52,620
Gains (expenses) associated with pension obligations	15,691	(2,326)
Finance income, net	53,690	52,537
Gains on disposal of available-for-sale financial assets	349	1,629
Share of net income of associated undertakings and jointly controlled entities	38,519	28,229
Other	(699)	(5,525)
Profit before profit tax	<u>591,066</u>	<u>421,696</u>

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

	For the three months ended 31 March	
	2011	2010
External sales for reportable segments	1,284,733	930,408
External sales for other segments	47,295	35,528
Total external segment sales	<u>1,332,028</u>	<u>965,936</u>
Differences in external sales	(15,281)	(11,609)
Total sales per the statement of comprehensive income	<u>1,316,747</u>	<u>954,327</u>

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

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

5 SEGMENT INFORMATION (continued)

	Production of gas	Transport	Distribution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
31 March 2011									
Segment assets	1,470,851	4,113,989	1,017,603	166,966	1,112,039	863,285	515,701	590,048	9,850,482
Investments in associated undertakings and jointly controlled entities	22,661	112,674	83,488	-	441,444	38,311	48	68,131	766,757
Capital additions	46,614	76,561	6,554	1,241	23,102	15,487	8,556	3,782	181,897
31 December 2010									
Segment assets	1,466,058	4,000,952	1,048,594	169,146	1,094,309	819,440	487,046	643,132	9,728,677
Investments in associated undertakings and jointly controlled entities	23,600	112,892	91,503	-	435,890	36,964	48	56,260	757,157
Capital additions	215,236	407,571	37,578	17,355	95,289	78,712	46,239	22,153	920,133

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

	31 March 2011	31 December 2010
Segment assets for reportable segments	9,260,434	9,085,545
Other segments' assets	590,048	643,132
Total segment assets	9,850,482	9,728,677
Differences in property, plant and equipment, net*	(1,676,043)	(1,709,952)
Loan interest capitalised	216,841	192,154
Decommissioning costs	65,702	65,017
Cash and cash equivalents	444,356	440,786
Restricted cash	3,422	3,669
Short-term financial assets	26,338	7,435
VAT recoverable	161,977	158,390
Other current assets	179,248	171,976
Available-for-sale long-term financial assets	198,284	191,417
Other non-current assets	512,480	498,663
Inter-segment assets	(654,222)	(659,640)
Other	179,144	147,401
Total assets per the balance sheet	9,508,009	9,235,993

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

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

	Production of gas	Transport	Distri- bution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy genera- tion and sales	All other segments	Total
Segment liabilities									
31 March 2011	86,241	281,762	391,088	8,163	226,687	87,343	29,691	123,354	1,234,329
31 December 2010	105,270	306,784	433,569	7,309	228,315	123,422	32,275	148,954	1,385,898

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

5 SEGMENT INFORMATION (continued)

Reportable segments' liabilities are reconciled to total liabilities as follows:

	31 March 2011	31 December 2010
Segment liabilities for reportable segments	1,110,975	1,236,944
Other segments' liabilities	<u>123,354</u>	<u>148,954</u>
Total segments liabilities	1,234,329	1,385,898
Profit tax payable	63,093	45,649
Short-term borrowings and current portion of long-term borrowings	179,398	190,845
Short-term promissory notes payable	51	207
Long-term borrowings	1,108,829	1,124,395
Provisions for liabilities and charges	199,253	200,040
Deferred tax liabilities	337,743	333,143
Other non-current liabilities	30,063	30,793
Dividends payable	1,955	2,258
Inter-segment liabilities	(654,222)	(659,640)
Other	<u>27,153</u>	<u>46,044</u>
Total liabilities per the balance sheet	2,527,645	2,699,632

6 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Balances included within cash and cash equivalents in the consolidated interim condensed balance sheet represent cash on hand, balances with banks and term deposits with original maturity of three months or less. Restricted cash balances include cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings.

	31 March 2011	31 December 2010
Cash on hand and bank balances payable on demand	406,291	339,109
Term deposits with original maturity of three months or less	<u>38,065</u>	<u>101,677</u>
	444,356	440,786

7 SHORT-TERM FINANCIAL ASSETS

	31 March 2011	31 December 2010
Financial assets held for trading	3,036	2,689
Available-for-sale financial assets (net of impairment provision of RR 183 and RR 427 as of 31 March 2011 and 31 December 2010, respectively)	<u>23,302</u>	<u>4,746</u>
	26,338	7,435

Financial assets held for trading primarily comprise marketable equity and debt securities intended to generate short-term profits through trading.

Available-for-sale financial assets primarily comprise investments in money market funds, as well as debt securities, including third parties' promissory notes maturing within twelve months of the balance sheet date.

8 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 March 2011	31 December 2010
Trade receivables	519,722	400,252
Prepayments and advances	180,505	218,297
Other receivables	<u>132,440</u>	<u>139,351</u>
	832,667	757,900

Accounts receivable and prepayments are presented net of impairment provision of RR 182,932 and RR 175,479 as of 31 March 2011 and 31 December 2010, respectively.

9 INVENTORIES

Inventories are presented net of provision for obsolescence of RR 2,421 and RR 2,585 as of 31 March 2011 and 31 December 2010, respectively.

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

10

PROPERTY, PLANT AND EQUIPMENT

	Total production assets (including production licenses)	Social assets	Assets under construction	Total
As of 31 December 2009				
Cost	6,292,666	78,487	1,084,644	7,455,797
Accumulated depreciation	<u>(2,529,546)</u>	<u>(27,028)</u>	<u>-</u>	<u>(2,556,574)</u>
Net book value as of 31 December 2009	3,763,120	51,459	1,084,644	4,899,223
Three months ended 31 March 2010				
Net book value as of 31 December 2009	3,763,120	51,459	1,084,644	4,899,223
Depreciation	(61,439)	(593)	-	(62,032)
Additions	3,374	341	163,080	166,795
Reclassified as disposal group held for sale	(4,896)	-	-	(4,896)
Transfers	41,142	335	(41,477)	-
Disposals	(6,597)	(138)	(4,771)	(11,506)
Translation differences	(2,965)	(26)	(964)	(3,955)
Release of impairment provision	<u>-</u>	<u>-</u>	<u>141</u>	<u>141</u>
Net book value as of 31 March 2010	3,731,739	51,378	1,200,653	4,983,770
Nine months ended 31 December 2010				
Net book value as of 31 March 2010	3,731,739	51,378	1,200,653	4,983,770
Depreciation	(184,919)	(1,832)	-	(186,751)
Additions	13,712	1,372	833,278	848,362
Acquisition of subsidiaries	14,271	-	232	14,503
Transfers	512,611	6,321	(518,932)	-
Disposals	(31,415)	(2,310)	(27,878)	(61,603)
Disposals of subsidiaries	(103,828)	(3)	(13,076)	(116,907)
Translation differences	3,939	46	1,832	5,817
Charge for impairment provision	<u>-</u>	<u>-</u>	<u>(762)</u>	<u>(762)</u>
Net book value as of 31 December 2010	3,956,110	54,972	1,475,347	5,486,429
As of 31 December 2010				
Cost	6,731,168	82,818	1,475,347	8,289,333
Accumulated depreciation	<u>(2,775,058)</u>	<u>(27,846)</u>	<u>-</u>	<u>(2,802,904)</u>
Net book value as of 31 December 2010	3,956,110	54,972	1,475,347	5,486,429
Three months ended 31 March 2011				
Net book value as of 31 December 2010	3,956,110	54,972	1,475,347	5,486,429
Depreciation	(64,977)	(836)	-	(65,813)
Additions	34,425	955	162,371	197,751
Translation differences	(4,559)	(96)	(1,049)	(5,704)
Transfers	41,649	845	(42,494)	-
Disposals	(12,890)	(819)	(8,104)	(21,813)
Charge for impairment provision	<u>-</u>	<u>-</u>	<u>(21)</u>	<u>(21)</u>
Net book value as of 31 March 2011	3,949,758	55,021	1,586,050	5,590,829
As of 31 March 2011				
Cost	6,795,576	83,128	1,586,050	8,464,754
Accumulated depreciation	<u>(2,845,818)</u>	<u>(28,107)</u>	<u>-</u>	<u>(2,873,925)</u>
Net book value as of 31 March 2011	3,949,758	55,021	1,586,050	5,590,829

Production assets are shown net of provision for impairment of RR 54,387 as of 31 March 2011 and 31 December 2010. Assets under construction are presented net of provision for impairment of RR 95,974 and RR 96,146 as of 31 March 2011 and 31 December 2010, respectively.

Included in the property, plant and equipment are social assets, such as rest houses, housing, schools and medical facilities, vested to the Group at privatisation with a net book value of RR 1,161 and RR 1,354 as of 31 March 2011 and 31 December 2010, respectively.

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

11 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES

Notes		Carrying value as of		Group's share of the profit (loss) for the three months ended	
		31 March 2011	31 December 2010	31 March 2011	2010
25,26	Sakhalin Energy Investment Company Ltd.	160,040	153,871	13,165	9,468
25	ОАО NGK Slavneft and its subsidiaries	148,769	151,826	54	257
25	ОАО Tomskneft VNK and its subsidiaries	65,205	65,286	(81)	1,604
25	Gazprombank Group	58,432	50,362	13,781	9,548
25	ОАО Beltransgaz	52,480	53,678	1,062	14
26	Nord Stream AG	40,267	39,066	1,516	(234)
25	Salym Petroleum Development N.V.	39,841	38,395	1,446	(1,577)
25	WINGAS GmbH & Co. KG	35,797	41,798	1,203	1,708
	ООО Yamal razvitie and its subsidiaries	27,486	27,984	(499)	-
25	TOO KazRosGaz	26,798	27,034	1,674	1,918
25	ОАО Gazprom neftekhim Salavat (former ОАО Salavatnefteorgsyntez)	21,450	19,940	1,510	529
25, 26	SGT EuRoPol GAZ S.A.	17,051	17,314	(30)	186
	Shtokman Development AG	16,628	17,741	82	(310)
	Wintershall AG	11,513	11,003	611	371
	ZAO Nortgaz	5,341	5,023	318	273
25	AO Latvijas Gaze	4,354	4,255	129	133
25	AO Gazum	4,310	4,040	302	405
26	ZAO Achimgaz	3,450	3,054	396	523
25	AO Lietuvos dujos	3,241	3,011	254	318
25,26	Blue Stream Pipeline Company B.V.	2,135	2,093	189	109
13,25	ОАО NOVATEK	-	-	-	2,168
	Other (net of provision for impairment of RR 2,096 as of 31 March 2011 and 31 December 2010)	<u>22,169</u>	<u>20,383</u>	<u>1,437</u>	<u>818</u>
		766,757	757,157	38,519	28,229

In July 2010 the Group set up ООО Yamal razvitie – jointly controlled entity on a fifty-fifty basis with ОАО NOVATEK. As a result of disposal of 51% interest in ООО SeverEnergiya to ООО Yamal razvitie in November 2010, the Group retained effective 25.5% interest in ООО SeverEnergiya.

In December 2010 the Group sold 9.4% interest in ОАО NOVATEK. As a result of that transaction, Group ceased to exercise significant influence over ОАО NOVATEK and accounted for retained interest within available-for-sale long-term financial assets (see Note 13).

Summarized financial information on the Group's principal associated undertakings and jointly controlled entities is presented in tables below.

The values, disclosed in the tables, represent total assets, liabilities, revenues, profit (loss) of the Group's principal associated undertakings and jointly controlled entities and not the Group's share.

	Percent of share capital held	Location	As of 31 March 2011		For the three months ended 31 March 2011	
			Assets	Liabilities	Revenues	Profit (loss)
Gazprombank Group*	44%	Russia	2,015,587	1,775,998	27,089	30,988
Sakhalin Energy Investment Company Ltd.	50%	Bermuda	631,810	332,987	58,378	26,329
ОАО NGK Slavneft and its subsidiaries	50%	Russia	613,351	316,224	39,617	108
Nord Stream AG	51%	Switzerland	205,522	124,543	-	2,972
WINGAS GmbH & Co. KG	50%	Germany	174,136	134,097	89,467	3,805
ООО Yamal razvitie and its subsidiaries	50%	Russia	150,028	40,639	-	(998)
ОАО Tomskneft VNK and its subsidiaries	50%	Russia	115,153	59,516	24,926	(162)

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

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

	Percent of share capital held	Location	As of 31 March 2011		For the three months ended 31 March 2011	
			Assets	Liabilities	Revenues	Profit (loss)
OAO Gazprom neftekhim						
Salavat	50%	Russia	80,233	55,254	30,465	3,028
OAO Beltransgaz	50%	Belarus	67,589	35,076	54,158	2,142
Blue Stream Pipeline						
Company B.V.	50%	Netherlands	62,085	53,677	2,173	756
TOO KazRosGaz	50%	Kazakhstan	55,199	1,602	7,403	3,347
SGT EuRoPol GAZ S.A.	48%	Poland	50,251	14,729	3,570	(62)
Wintershall AG	49%	Germany	45,573	33,196	18,958	1,244
Salym Petroleum						
Development N.V.	50%	Netherlands	38,782	23,682	15,608	2,891
Shtokman Development AG	51%	Switzerland	38,255	5,650	-	161
AO Gazum	25%	Finland	33,463	16,222	17,827	1,208
AO Lietuvos dujos	37%	Lithuania	31,172	6,394	6,594	686
AO Latvijas Gaze	34%	Latvia	27,243	6,695	8,257	380
ZAO Nortgaz	51%	Russia	14,256	3,784	1,770	624
ZAO Achimgaz	50%	Russia	10,093	3,192	1,397	793

* Presented revenue of Gazprombank Group is reported according to the Group accounting policy and includes revenue of media business, machinery business and other non-banking companies.

	Percent of share capital held	Location	As of 31 March 2010		For the three months ended 31 March 2010	
			Assets	Liabilities	Revenues	Profit (loss)
Gazprombank Group*	45%	Russia	1,759,229	1,539,353	70,530	23,660
Sakhalin Energy Investment						
Company Ltd.	50%	Bermuda	630,855	284,375	47,820	18,937
OAO NGK Slavneft and its						
subsidiaries	50%	Russia	615,334	301,107	32,661	515
OAO NOVATEK	19%	Russia	204,915	58,038	27,742	11,182
WINGAS GmbH & Co. KG	50%	Germany	139,085	105,617	90,430	4,119
OAO Tomskneft VNK and its						
subsidiaries	50%	Russia	131,168	61,333	18,051	3,208
Nord Stream AG	51%	Switzerland	115,574	56,075	-	(459)
OAO Gazprom neftekhim						
Salavat	50%	Russia	69,576	47,895	21,875	1,057
Blue Stream Pipeline						
Company B.V.	50%	Netherlands	64,521	58,000	1,968	435
SGT EuRoPol GAZ S.A.	48%	Poland	53,598	16,527	3,583	368
OAO Beltransgaz**	50%	Belarus	51,794	24,911	33,891	33
TOO KazRosGaz	50%	Kazakhstan	41,776	1,648	8,487	3,836
Salym Petroleum						
Development N.V.	50%	Netherlands	36,856	28,272	12,457	1,184
Shtokman Development AG	51%	Switzerland	33,812	7,193	-	(440)
AO Gazum	25%	Finland	31,838	13,791	16,721	1,621
Wintershall AG	49%	Germany	31,518	20,465	15,368	757
AO Lietuvos dujos	37%	Lithuania	30,328	6,615	8,220	858
AO Latvijas Gaze	34%	Latvia	24,504	4,665	7,383	392
ZAO Nortgaz	51%	Russia	10,824	1,797	1,460	536
ZAO Achimgaz	50%	Russia	10,069	5,722	1,202	1,046

* Presented revenue of Gazprombank Group is reported according to the Group accounting policy and includes revenue of petrochemical business, media business, machinery business and other non-banking companies.

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

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

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

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

	31 March 2011	31 December 2010
OA O Gazprom neftekhim Salavat	17,626	20,046
AO Lietuvos dujos	5,497	5,134
AO Latvijas Gaze	4,710	3,735

12 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 March 2011	31 December 2010
Long-term accounts receivable and prepayments	166,962	169,124
Advances for assets under construction	<u>357,211</u>	<u>267,308</u>
	524,173	436,432

Long-term accounts receivable and prepayments are presented net of impairment provision of RR 17,091 and RR 22,470 as of 31 March 2011 and 31 December 2010, respectively.

13 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

Available-for-sale long-term financial assets, in total amount of RR 198,284 and RR 191,417 are shown net of provision for impairment of RR 2,290 and RR 2,164 as of 31 March 2011 and 31 December 2010, respectively.

As of 31 March 2011 and 31 December 2010 long-term available-for-sale financial assets include OA O NOVATEK shares in the amount of RR 119,864 and RR 110,471, respectively.

14 OTHER NON-CURRENT ASSETS

Included within other non-current assets is VAT recoverable related to assets under construction totalling RR 116,922 and RR 107,969 as of 31 March 2011 and 31 December 2010 respectively.

Other non-current assets include net pension assets in the amount of RR 252,647 as of 31 March 2011 and RR 254,304 as of 31 December 2010 respectively.

15 LONG-TERM BORROWINGS

	Currency	Final maturity	31 March 2011	31 December 2010
Long-term borrowings payable to:				
Loan participation notes issued in April 2009 ¹	US dollar	2019	66,562	69,771
The Royal Bank of Scotland AG	US dollar	2013	50,150	55,046
Loan participation notes issued in October 2007 ¹	Euro	2018	48,435	51,220
Loan participation notes issued in June 2007 ¹	US dollar	2013	46,373	48,963
Natixis SA ²	US dollar	2015	42,649	45,721
Loan participation notes issued in May 2005 ¹	Euro	2015	41,982	41,715
Loan participation notes issued in December 2005 ¹	Euro	2012	40,590	40,445
Loan participation notes issued in November 2006 ¹	US dollar	2016	39,233	41,421
Loan participation notes issued in March 2007 ¹	US dollar	2022	37,118	40,437
White Nights Finance B.V.	US dollar	2014	37,074	39,744
Loan participation notes issued in July 2009 ¹	US dollar	2014	36,018	39,386
Loan participation notes issued in August 2007 ¹	US dollar	2037	35,860	39,137
Loan participation notes issued in April 2004 ¹	US dollar	2034	35,365	37,124
Loan participation notes issued in July 2009 ¹	Euro	2015	34,443	36,809
Loan participation notes issued in April 2008 ¹	US dollar	2018	32,475	34,131
Loan participation notes issued in October 2006 ¹	Euro	2014	31,368	32,804
Loan participation notes issued in November 2010 ¹	US dollar	2015	28,920	30,615
Loan participation notes issued in June 2007 ¹	Euro	2014	28,641	28,490

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

15 LONG-TERM BORROWINGS (continued)

	Currency	Final maturity	31 March 2011	31 December 2010
WestLB AG ²	US dollar	2013	22,480	25,744
Russian bonds issued in April 2010 ⁶	Rouble	2013	20,666	20,000
Loan participation notes issued in March 2007 ¹	Euro	2017	20,459	20,347
Loan participation notes issued in November 2006 ¹	Euro	2017	20,039	20,975
Structured export notes issued in July 2004 ³	US dollar	2020	18,611	22,747
OAO Russian National Commercial Bank	US dollar	2012	17,740	19,018
Loan participation notes issued in April 2009 ¹	CHF	2011	16,693	17,209
RosUkrEnergo AG	US dollar	2012	16,139	-
Credit Suisse International	US dollar	2017	15,099	15,989
Loan participation notes issued in July 2008 ¹	US dollar	2013	14,475	15,671
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2012	14,235	15,259
OAO Sberbank Rossii (AK Sberregatelny bank RF (OAO))	US dollar	2012	13,306	16,643
J.P. Morgan Chase bank	US dollar	2012	11,991	12,847
Loan participation notes issued in April 2008 ¹	US dollar	2013	11,766	12,390
OAO VTB Bank	US dollar	2012	11,483	12,317
Russian bonds issued in April 2009 ⁶	Rouble	2019	10,746	11,173
Deutsche Bank AG	US dollar	2014	10,683	11,410
Russian bonds issued in June 2009	Rouble	2012	10,334	10,011
Russian bonds issued in February 2011 ⁶	Rouble	2021	10,124	-
Russian bonds issued in February 2011 ⁶	Rouble	2016	10,119	-
Russian bonds issued in February 2011 ⁶	Rouble	2021	10,119	-
Citibank International plc ²	US dollar	2021	9,628	10,269
BNP Paribas SA ²	Euro	2022	9,428	7,108
Eurofert Trading Limited Llc ⁴	Rouble	2015	8,600	8,600
Deutsche Bank AG	US dollar	2014	8,595	9,217
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2016	8,539	-
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2015	8,531	9,198
The Royal Bank of Scotland AG ²	US dollar	2012	8,375	10,774
Russian bonds issued in July 2009 ⁶	Rouble	2016	8,233	8,000
GK Vnesheconombank	Rouble	2025	7,932	6,621
Loan participation notes issued in November 2007 ¹	JPY	2012	7,600	8,017
Credit Agricole CIB ²	US dollar	2013	7,120	7,633
Deutsche Bank AG	US dollar	2014	5,705	6,115
Russian bonds issued in June 2009	Rouble	2014	5,175	5,006
Russian bonds issued in December 2009 ⁵	Rouble	2014	5,166	5,039
The Royal Bank of Scotland AG ²	US dollar	2013	5,150	5,521
Russian bonds issued in November 2006	Rouble	2011	5,148	5,061
Russian bonds issued in July 2009 ⁷	Rouble	2011	5,066	5,000
Russian bonds issued in February 2007	Rouble	2014	5,043	5,134
Eurofert Trading Limited Llc. ⁴	Rouble	2015	5,000	5,000
Russian bonds issued in March 2006 ⁵	Rouble	2016	4,818	4,910
Russian bonds issued in September 2006 ⁵	Rouble	2011	4,655	4,801
Other long-term borrowings	Various	Various	<u>80,604</u>	<u>82,213</u>
Total long-term borrowings			1,244,674	1,251,966
Less: current portion of long-term borrowings			<u>(135,845)</u>	<u>(127,571)</u>
			1,108,829	1,124,395

¹ Issuer of these bonds is Gaz Capital S.A.

² Loans received from syndicate of banks, named lender is the bank-agent.

³ Issuer of these notes is Gazprom International S.A.

⁴ Issuers of these notes are OAO WGC-2 and OAO WGC-6.

⁵ Issuer of these bonds is OAO Mosenergo.

⁶ Issuer of these bonds is OAO Gazprom neft.

⁷ Issuer of these bonds is OAO TGC-1.

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

15 LONG-TERM BORROWINGS (continued)

	31 March 2011	31 December 2010
Due for repayment:		
Between one and two years	229,197	166,853
Between two and five years	467,241	551,310
After five years	<u>412,391</u>	<u>406,232</u>
	1,108,829	1,124,395

Long-term borrowings, including current portion, include fixed rate loans with a carrying value of RR 1,061,888 and RR 1,065,435 and fair value of RR 1,156,473 and RR 1,130,206 as of 31 March 2011 and 31 December 2010, respectively. All other long-term borrowings generally have variable interest rates linked to LIBOR, and the difference between carrying value of these liabilities and their fair value is not significant.

As of 31 March 2011 and 31 December 2010 long-term borrowings, including current portion, of RR 18,611 and RR 22,747 were secured by revenues from export supplies of gas to Western Europe.

16 PROFIT TAX

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

	31 March 2011	Differences recognition and reversals	31 December 2010	31 March 2010	Differences recognition and reversals	31 December 2009
Tax effects of taxable temporary differences:						
Property, plant and equipment	(320,774)	(4,207)	(316,567)	(336,585)	(31,959)	(304,626)
Financial assets	(17,641)	581	(18,222)	(18,501)	(797)	(17,704)
Inventories	<u>(2,245)</u>	<u>326</u>	<u>(2,571)</u>	<u>(1,740)</u>	<u>1,628</u>	<u>(3,368)</u>
	(340,660)	(3,300)	(337,360)	(356,826)	(31,128)	(325,698)
Tax effects of deductible temporary differences:						
Tax losses carry forward	787	(31)	818	2,148	(91)	2,239
Other deductible temporary differences	<u>2,130</u>	<u>(1,269)</u>	<u>3,399</u>	<u>961</u>	<u>(974)</u>	<u>1,935</u>
	2,917	(1,300)	4,217	3,109	(1,065)	4,174
Total net deferred tax liabilities	(337,743)	(4,600)	(333,143)	(353,717)	(32,193)	(321,524)

Taxable temporary differences recognized for the three months ended 31 March 2010 include the effect of applying a special accelerated depreciation coefficient of 2 for property, plant and equipment operated in aggressive environment. As a result deferred tax liability related to property, plant and equipment was recognized in the amount of RR 23,088.

17 EQUITY

Share capital

Share capital authorised, issued and paid totals RR 325,194 as of 31 March 2011 and 31 December 2010 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Russian Roubles.

Treasury shares

As of 31 March 2011 and 31 December 2010, subsidiaries of OAO Gazprom held 723 million of the ordinary shares of OAO Gazprom, which are accounted for as treasury shares. The management of the Group controls the voting rights of these shares.

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

18 SALES

	Three months ended 31 March	
	2011	2010
Gas sales (including excise tax, customs duties and net of VAT) to customers in:		
Russian Federation	266,042	232,783
Former Soviet Union (excluding Russian Federation)	220,243	118,393
Europe and other countries	<u>468,121</u>	<u>365,482</u>
Gross sales of gas	954,406	716,658
Customs duties	<u>(84,437)</u>	<u>(104,298)</u>
Net sales of gas	869,969	612,360
Sales of refined products to customers in:		
Russian Federation	121,135	86,366
Former Soviet Union (excluding Russian Federation)	10,825	7,754
Europe and other countries	<u>82,927</u>	<u>59,425</u>
Total sales of refined products	214,887	153,545
Sales of crude oil and gas condensate to customers in:		
Russian Federation	7,388	4,862
Former Soviet Union (excluding Russian Federation)	7,925	5,360
Europe and other countries	<u>42,032</u>	<u>34,362</u>
Total sales of crude oil and gas condensate	57,345	44,584
Electric and heat energy sales	112,536	93,397
Gas transportation sales	28,796	25,147
Other revenue	<u>33,214</u>	<u>25,294</u>
Total sales revenue	1,316,747	954,327

19 OPERATING EXPENSES

Note	Three months ended 31 March	
	2011	2010
Purchased gas and oil	263,513	130,891
25 Taxes other than on income	101,886	71,417
Staff costs	87,812	75,461
Depreciation	66,968	61,502
Transit of gas, oil and refined products	63,746	76,386
Repairs and maintenance	31,644	27,626
Materials	25,050	24,141
Cost of goods for resale, including refined products	24,092	6,216
Electricity and heating expenses	21,248	17,580
Exchange rate differences on operating items	20,434	20,513
Transportation services	9,046	4,431
Social expenses	7,242	5,303
Rental expenses	4,404	5,074
Insurance expenses	4,142	3,912
Research and development expenses	3,822	5,243
Processing services	2,105	1,842
Charge for impairment provisions	391	4,242
Other	<u>38,823</u>	<u>50,968</u>
	776,368	592,748
Changes in inventories of finished goods, work in progress and other effects	<u>41,541</u>	<u>22,082</u>
Total operating expenses	817,909	614,830

Starting from 1 January 2011 the Group changed presentation of operating expenses disclosing by nature the expenses incurred during the period and adjusting them for the total change in inventories of finished goods, work in progress and other effects. The comparative information was adjusted accordingly. Management believes that the current presentation of operating expenses is more reflective to the Group's operations.

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

19 OPERATING EXPENSES (continued)

Staff costs include RR 8,577 and RR 5,723 of expenses associated with pension obligations for the three months ended 31 March 2011 and 2010, respectively.

20 FINANCE INCOME AND EXPENSES

	Three months ended	
	31 March	
	2011	2010
Exchange gains	69,830	63,940
Interest income	4,042	7,560
Gains on extinguishment of restructured liabilities	96	2
Total finance income	73,968	71,502
Exchange losses	3,360	4,686
Interest expense	16,918	14,279
Total finance expenses	20,278	18,965

21 BASIC AND DILUTED EARNINGS PER SHARE, ATTRIBUTABLE TO OWNERS OF ОАО ГАЗПРОМ

Earnings per share have been calculated by dividing the profit, attributable to owners of ОАО Gazprom by the weighted average number of shares outstanding during the period, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 17).

There were 23.0 billion and 22.9 billion weighted average shares outstanding for the three months ended 31 March 2011 and 2010, respectively.

There are no dilutive financial instruments outstanding.

22 PROVISIONS FOR LIABILITIES AND CHARGES

	31 March	31 December
	2011	2010
Provision for decommissioning and site restoration costs	103,190	101,407
Provision for pension obligations	88,278	84,064
Other	7,785	14,569
	199,253	200,040

The Group operates a defined benefit plan, concerning the majority of the employees of the Group. These benefits include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and certain post-retirement benefits from the Group provided upon retirement.

The net pension assets related to benefits, provided by the pension plan NPF Gazfund in the amount of RR 252,647 and RR 254,304 as of 31 March 2011 and 31 December 2010, respectively, are presented within other non-current assets in the consolidated balance sheet. In accordance with IAS 19, pension assets are recorded at estimated fair market values subject to certain limitations. As of 31 March 2011 and 31 December 2010 management estimated the fair value of these assets at approximately RR 450 billion and RR 438 billion, respectively. The pension assets comprise shares of ОАО Gazprom, shares of ОАО Gazprombank and other assets held by NPF Gazfund.

23 PURCHASE OF NON-CONTROLLING INTEREST IN SIBIR ENERGY LTD.

On 14 February 2011 the Board of Directors of Sibir Energy Ltd. adopted a resolution to reduce the share capital by 86.25 million shares (22.39%). ОАО Central Fuel Company, an affiliate to the Moscow Government, made a decision to withdraw membership in Sibir Energy Ltd. for a compensation of USD 740 million. As a result of the transaction starting from 15 February 2011 the Group has 100% interest in Sibir Energy Ltd.

Following the reduction in share capital of Sibir Energy Ltd. the Group has increased its effective interest in ОАО Moskovsky NPZ from 66.04% to 74.36%.

As a result of this transaction the difference between the non-controlling interest acquired and consideration paid has been recognized in equity in amount of RR 5,405 million and is included within retained earnings and other reserves.

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

24 DECONSOLIDATION OF ZAO GAZENERGOPROMBANK

On 29 March 2010 the respective Boards of directors of ZAO Gazenergoprombank, banking subsidiary of the Group, and OAO AB Rossiya, a bank not related to the Group, approved a reorganization in the form of the merger of ZAO Gazenergoprombank to OAO AB Rossiya. On 30 April 2010 shareholders of both banks also approved that reorganization. According to the merger agreement, all assets and liabilities of ZAO Gazenergoprombank were transferred to OAO AB Rossiya; in exchange for its existing controlling interest in ZAO Gazenergoprombank, the Group received a non-controlling interest in OAO AB Rossiya. According to the terms of the merger agreement the Group lost the ability to control the financial and operating policies of ZAO Gazenergoprombank on 30 April 2010. As a result, the Group ceased to include assets, liabilities, operating results and cash flows of ZAO Gazenergoprombank within the consolidated financial statements from 30 April 2010.

25 RELATED PARTIES

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as of 31 March 2011 is detailed below.

Government

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

The Government does not prepare consolidated financial statements for public use. On 30 June 2011 the extraordinary General Shareholders Meeting was held to fulfil the assignments of the President of the Russian Federation to replace government officials on boards of directors in open joint stock companies with independent or representative directors. As a result of the extraordinary General Shareholders Meeting authority of two State representatives on the Board of Directors was terminated ahead of schedule and the new Board of Directors was elected. Governmental economic and social policies affect the Group’s financial position, results of operations and cash flows.

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

Parties under control of the Government

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

As of 31 March 2011 and 31 December 2010 and for the three months ended 31 March 2011 and 2010, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

Notes	As of 31 March 2011		Three months ended 31 March 2011	
	Assets	Liabilities	Income	Expenses
Transactions and balances with the Government				
Current profit tax	14,857	63,093	-	108,864
Insurance contributions to non-budget funds	261	6,465	-	19,670
VAT recoverable/payable	303,849	58,863	-	-
Customs duties	50,493	-	-	-
19 Other taxes	1,564	48,767	-	101,886
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	1,345	-
Electricity and heating sales	-	-	72,888	-
Other services sales	-	-	480	-
Accounts receivable	43,975	-	-	-
Oil transportation expenses	-	-	-	20,256
Accounts payable	-	10,997	-	-

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

25 RELATED PARTIES (continued)

	As of 31 March 2011		Three months ended 31 March 2011	
	Assets	Liabilities	Income	Expenses
Loans	-	48,366	-	-
Interest income/expense	-	-	-	535
Short-term financial assets	2,851	-	-	-
Available-for-sale long-term financial assets	52,530	-	-	-
Notes	As of 31 December 2010		Three months ended 31 March 2010	
	Assets	Liabilities	Income	Expenses
Transactions and balances with the Government				
Current profit tax	14,265	45,649	-	55,053
Insurance contributions to non-budget funds	753	1,438	-	14,750
VAT recoverable/payable	299,121	32,365	-	-
Customs duties	44,197	-	-	-
19 Other taxes	1,689	38,117	-	71,417
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	832	-
Electricity sales	-	-	63,300	-
Other services sales	-	-	486	-
Accounts receivable	26,977	-	-	-
Oil transportation expenses	-	-	-	20,061
Accounts payable	-	9,289	-	-
Loans	-	48,710	-	-
Interest income/expense	-	-	-	2,910
Short-term financial assets	517	-	-	-
Available-for-sale long-term financial assets	54,718	-	-	-

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

In the normal course of business the Group incurs electricity and heating expenses (see Note 19). A part of these expenses relates to purchases from the entities under Government control. Due to the specifics of the electricity market in the Russian Federation, these purchases can not be accurately separated from the purchases from private companies.

See the consolidated interim condensed statement of changes in equity for returns of social assets to governmental authorities during the three months ended 31 March 2011 and 2010. See Note 10 for net book values as of 31 March 2011 and 31 December 2010 of social assets vested to the Group at privatisation.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company.

Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and a one-time retirement payment from the Group. Employees of the majority of Group companies are eligible for such benefits. The Group provided medical insurance and liability insurance for key management personnel.

Associated undertakings and jointly controlled entities

For the three months ended 31 March 2011 and 2010 and as of 31 March 2011 and 31 December 2010 the Group had the following significant transactions and balances with associated undertakings and jointly controlled entities:

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

25 RELATED PARTIES (continued)

	Three months ended 31 March	
	2011	2010
	Revenues	
Gas sales		
OAO Beltransgaz	41,243	32,998
Wintershall Erdgas Handelshaus GmbH & Co. KG (WIEH)	27,788	24,168
WINGAS GmbH & Co. KG	15,668	10,499
Wintershall Erdgas Handelshaus Zug AG (WIEE)*	11,370	6,600
ZAO Panrusgaz	10,549	19,738
AO Gazum	10,125	8,524
AO Moldovagaz	6,572	5,551
AO Overgaz Inc.	5,763	4,853
AO Latvijas Gaze	4,124	413
Promgaz S.p.A.	4,025	3,476
AO Lietuvos dujos	3,555	4,401
GWH – Gaz und Warenhandels GmbH	2,940	2,453
PremiumGas S.p.A.	2,624	2,664
ZAO Gazprom YRGM Trading	2,503	3,481
ZAO Gazprom YRGM Development	1,788	2,487
Bosphorus Gaz Corporation A.S.	1,357	702
Gas transportation sales		
OAO NOVATEK**	-	6,288
ZAO Gazprom YRGM Trading	5,232	4,808
ZAO Gazprom YRGM Development	3 737	3 434
Gas condensate, crude oil and refined products sales		
OAO NGK Slavneft and its subsidiaries	7,083	7,353
OAO Gazprom neftekhim Salavat (former OAO Salavatnefteorgsyntez)	4,404	2,519
Gas refining services sales		
TOO KazRosGaz	1,439	1,298
	Expenses	
Purchased gas		
RosUkrEnergo AG	110,257	-
ZAO Gazprom YRGM Trading	13,183	11,025
ZAO Gazprom YRGM Development	9,423	7,881
OAO NOVATEK**	-	3,721
TOO KazRosGaz	5,474	6,298
Sakhalin Energy Investment Company Ltd.	1,848	1,276
Purchased transit of gas		
OAO Beltransgaz	3,446	3,117
SGT EuRoPol GAZ S.A.	2,577	2,577
Blue Stream Pipeline Company B.V.	1,921	1,972
WINGAS GmbH & Co. KG	913	1,126
Purchased crude oil and refined products		
OAO NGK Slavneft and its subsidiaries	16,772	14,915
OAO Tomskneft VNK and its subsidiaries	11,035	7,981
Salym Petroleum Development N.V.	8,430	6,576
Purchased processing services		
OAO NGK Slavneft and its subsidiaries	1,955	1,842

*Wintershall Erdgas Handelshaus Zug AG (WIEE) is the subsidiary of Wintershall Erdgas Handelshaus GmbH & Co KG (WIEH).

**In December 2010 the Group sold 9.4% interest in OAO NOVATEK. As a result of that transaction, Group ceased to exercise significant influence over OAO NOVATEK and accounted for retained interest within available-for-sale long-term financial assets (see Note 13).

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

25 RELATED PARTIES (continued)

Gas is sold to associated undertakings in the Russian Federation mainly at the rates established by the FTS. Gas is sold outside the Russian Federation mainly under long-term contracts prices in which are indexed mainly to world oil product prices.

	As of 31 March 2011		As of 31 December 2010	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
OAo Beltransgaz	14,749	-	14,972	-
RosUkrEnergo AG	12,284	-	81,622	-
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	11,280	-	7,253	-
OAo Gazprom neftekhim Salavat	10,245	-	10,829	-
WINGAS GmbH & Co.KG	6,358	-	7,870	-
AO Overgaz Inc.	5,639	-	5,820	-
AO Moldovagaz*	5,367	-	2,717	-
ZAO Panrusgaz	5,115	-	8,087	-
AO Gazum	4,551	-	5,164	-
Wintershall Erdgas Handelshaus Zug AG, (WIEE)	3,625	-	2,763	-
Promgaz S.p.A.	2,106	-	2,143	-
ZAO Gazprom YRGM Development	1,996	-	1,023	-
AO Lietuvos dujos	1,498	-	2,103	-
OAo Gazprombank	1,350	-	1,567	-
OAo NGK Slavneft and its subsidiaries	1,319	-	1,238	-
ZAO Gazprom YRGM Trading	1,436	-	1,432	-
TOO KazRosGaz	677	-	647	-
OAo Sibur Holding and its subsidiaries	198	-	498	-
Cash balances in associated undertakings				
OAo Gazprombank	223,533	-	191,552	-
Long-term accounts receivable and prepayments				
WINGAS GmbH & Co. KG	15,320	-	15,439	-
OAo Sibur Holding and its subsidiaries	4,428	-	3,894	-
Salym Petroleum Development N.V.	4,257	-	4,806	-
Long-term promissory notes				
OAo Gazprombank	953	-	943	-
Short-term accounts payable				
ZAO Gazprom YRGM Trading	-	7,457	-	6,466
SGT EuRoPol GAZ S.A.	-	6,199	-	6,976
OAo Sibur Holding and its subsidiaries	-	4,088	-	3,777
ZAO Gazprom YRGM Development	-	4,012	-	4,984
Salym Petroleum Development N.V.	-	3,435	-	2,635
Promgaz S.p.A.	-	3,296	-	1,583
TOO KazRosGaz	-	3,106	-	4,336
OAo Beltransgaz	-	1,989	-	1,297
OAo NGK Slavneft and its subsidiaries	-	1,905	-	1,394
WINGAS GmbH & Co.KG	-	1,592	-	2,806
OAo Gazprombank	-	179	-	708
RosUkrEnergo AG	-	-	-	8,447
Other non-current liabilities				
ZAO Gazprom YRGM Trading	-	3,187	-	3,683
OAo Sibur Holding and its subsidiaries	-	150	-	1,115
ZAO Gazprom YRGM Development	-	497	-	-

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

25 RELATED PARTIES (continued)

	As of 31 March 2011		As of 31 December 2010	
	Assets	Liabilities	Assets	Liabilities
Short-term loans from associated companies				
ОАО Томскнефт VNK and its subsidiaries	-	8,586	-	7,027
ОАО Газпромбанк	-	2,380	-	6,973
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	-	-	-	2,527
ОАО НКГК Slavneft and its subsidiaries	-	373	-	-
Long-term loans from associated undertaking				
RosUkrEnergo AG	-	16,139	-	-
ОАО Газпромбанк	-	2,353	-	3,770

* Net of impairment provision on accounts receivable in the amount of RR 67,898 and RR 69,305 as of 31 March 2011 and 31 December 2010 respectively.

Investments in associated undertakings and jointly controlled entities are disclosed in Note 11.

See Note 26 for financial guarantees issued by the Group to the associated undertakings and jointly controlled entities.

26 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Taxation

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 31 March 2011 is appropriate and all of the Group's material tax, currency and customs positions will be sustainable.

Financial guarantees

	31 March 2011	31 December 2010
Outstanding guarantees issued on behalf of:		
Sakhalin Energy Investment Company Ltd.	93,996	100,260
Nord Stream AG	55,389	50,005
Blue Stream Pipeline Company B.V.	9,462	12,974
EM Interfinance Limited	5,264	5,694
ООО Production Company VIS	4,472	4,472
Blackrock Capital Investments Limited	4,461	4,824
Devere Capital International Limited	3,057	4,217
ОАО Group E4	1,438	1,450
ZAO Achimgaz	371	4,330
ООО Severny Europeysky Trubny Proekt	-	27,227
ООО Torgovy Dom Truboprovod	-	8,305
Other	17,085	17,619
	194,995	241,377

Included in financial guarantees are amounts denominated in USD of USD 4,277 million and USD 4,374 million as of 31 March 2011 and 31 December 2010, respectively, as well as amounts denominated in Euro of Euro 1,545 million and Euro 1,494 million as of 31 March 2011 and 31 December 2010, respectively.

In July 2005 Blue Stream Pipeline Company B.V. (BSPC) refinanced some of the existing liabilities, guaranteed by the Group, by means of repayment of the liabilities to a group of Italian and Japanese banks. For the purpose of this transaction loans in the amount of USD 1,185.3 million were received from Gazstream S.A. The Group guaranteed the above loans. As of 31 March 2011 and 31 December 2010, outstanding amounts of these loans were RR 9,462 (USD 333 million) and RR 12,974 (USD 426 million), respectively, which were guaranteed by the Group, pursuant to its obligations.

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) in regard to bonds issued with due dates December 2012, June 2018, December 2009,

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2011
(In millions of Russian Roubles)

26 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by SGT EuRoPol GAZ S.A. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. As a result as of 31 March 2011 and 31 December 2010 the guarantees issued on behalf of Devere Capital International Limited, Blackrock Capital Investments Limited and EM Interfinance Limited amounted to RR 12,782 (USD 450 million) and RR 14,735 (USD 483 million), respectively.

In 2007 the Group provided a guarantee to Wintershall Vermögens-Verwaltungsgesellschaft mbH on behalf of ZAO Achimgaz as a security of loans received and used for additional financing of the pilot implementation of the project on the development of Achimsky deposits of the Urengoy field. The Group's liability with respect to loans is limited by 50% in accordance with the ownership interest in ZAO Achimgaz. As of 31 March 2011 and 31 December 2010 the above guarantee amounted to RR 371 (Euro 9 million) and RR 4,330 (Euro 107 million), respectively.

In May 2008 the Group provided a guarantee to OAO Bank of Moscow on behalf of OAO Group E4 as a security of loans for obligations under contracts for delivering of power units. As of 31 March 2011 and 31 December 2010 the above guarantee amounted to RR 1,438 (Euro 36 million) and RR 1,450 (Euro 36 million), respectively.

In June 2008 the Group provided a guarantee to the Bank of Tokyo-Mitsubishi UFJ Ltd. on behalf of Sakhalin Energy Investment Company Ltd. under the credit facility up to the amount of the Group's share (50%) in the obligations of Sakhalin Energy Investment Company Ltd. toward the Bank of Tokyo-Mitsubishi UFJ Ltd. As of 31 March 2011 and 31 December 2010 the above guarantee amounted to RR 93,996 (USD 3,306 million) and RR 100,260 (USD 3,290 million), respectively.

In January 2010 the Group provided a guarantee to OAO Bank VTB on behalf of OOO Production Company VIS as a security of credit facility for financing of projects of construction industrial units for Gazprom Group, including priority investment projects of construction generating capacities of OAO WGC-6. As of 31 March 2011 and 31 December 2010 the above guarantee amounted to RR 4,472.

In March 2010 the Group provided a guarantee to Societe Generale on behalf of Nord Stream AG under the credit facility for financing of Nord Stream gas pipeline Phase 1 construction completion. According to guarantee agreements the Group has to redeem debt up to the amount of the Group's share (51%) in the obligations of Nord Stream toward the Societe Generale in the event that Nord Stream fail to repay those amounts. As of 31 March 2011 and 31 December 2010 the above guarantee within the Group's share in Nord Stream AG obligations to the bank amounted to RR 55,389 (Euro 1,384 million) and RR 50,005 (Euro 1,240 million), respectively.

In November 2010 the Group provided a guarantee to OAO Gazprombank on behalf of OOO Severny Europeysky Trubny Proekt as a security of credit facility for payments settlement with suppliers of pipes supplied to subsidiaries of OAO Gazprom. As of 31 December 2010 the above guarantee amounted to RR 27,227. As of 31 March 2011 this credit facility was repaid.

In November 2010 the Group provided a guarantee to OAO Gazprombank on behalf of OOO Torgovy Dom Truboprovod as a security of credit facility for payments settlement with suppliers of pipes supplied to subsidiaries of OAO Gazprom. As of 31 December 2010 the above guarantee amounted to RR 8,305. As of 31 March 2011 this credit facility was repaid.

27 POST BALANCE SHEET EVENTS

Borrowings and loans

In April 2011 the Group signed the agreement to obtain long-term unsecured syndicated loan facility from consortium of banks in the amount of USD 600 million at an interest rate of LIBOR+1.5% due in 2016. ZAO Mizuho Corporate Bank (Moscow) was appointed as bank agent.

In May 2011 the Group obtained project finance for the development of Yuzhno-Russkoye oil and gas field from consortium of foreign banks and OAO Gazprombank in the amount of RR 5,993, USD 657 million and Euro 474 million at an interest rate of 11.4%, LIBOR+2.35% and EURIBOR+2.35%, respectively, due in 2018. UniCredit Bank AG was appointed as bank agent.

OAO GAZPROM
INVESTMENT RELATIONSHIPS

The Company may be contacted at its registered office:

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Nametkina str., 16
V-420, GSP-7, 117997, Moscow
Russia

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www.gazprom.com (in English)

ОАО ГАЗПРОМ

IFRS Consolidated Financial Statements as of and for the year ended December 31, 2010 with a comparison against the IFRS Consolidated Financial Statements as of and for the year ended December 31, 2009



INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of OAO Gazprom

We have audited the accompanying consolidated financial statements of OAO Gazprom and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Without qualifying our opinion, we draw your attention to Notes 24 and 41 to the consolidated financial statements. The Government of the Russian Federation has a controlling interest in OAO Gazprom and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers Audit

28 April 2011
Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit
White Square Office Center, 10 Butyrsky Val, Moscow, Russia 125047
T: +7 (495) 967 60 00, F: +7 (495) 967 6001, www.pwc.ru

GAO GAZPROM
IFRS CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2010
(In millions of Russian Roubles)

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

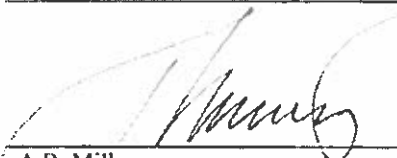

A.B. Miller
Chairman of the Management Committee
28 April 2011

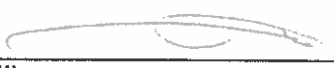

E.A. Vasilieva
Chief Accountant
22 April 2011

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

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

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


A.B. Miller
Chairman of the Management Committee
22 April 2011


E.A. Vasilieva
Chief Accountant
22 April 2011

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

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

Notes	Year ended 31 December	
	2010	2009
	Operating activities	
30	Net cash provided by operating activities	1,460,116
	Investing activities	
12	Capital expenditures	(1,042,642)
	Net change in loans made	(9,113)
	Interest received	13,233
12	Interest paid and capitalised	(62,392)
	Acquisition of subsidiaries, net of cash acquired	(73,696)
39	Decrease of cash and cash equivalents from deconsolidation of banking subsidiaries	(32,504)
34	Purchase of non-controlling interest in OAO Gazprom neft	-
13	Investment in associated undertakings and jointly controlled entities	(32,817)
36	Proceeds from sales of interest in subsidiaries	34,540
40	Proceeds from disposal of interest in OAO NOVATEK	57,462
13	Proceeds from associated undertakings and jointly controlled entities	93,894
	Net change of long-term available-for-sale financial assets	317
	Change in other long-term financial assets	3,411
	Net cash used for investing activities	(1,050,307)
	Financing activities	
20	Proceeds from long-term borrowings	223,753
20	Repayment of long-term borrowings (including current portion)	(316,042)
	Net repayment of promissory notes	(812)
19	Net repayment of short-term borrowings	(30,294)
24	Dividends paid	(55,106)
	Interest paid	(33,428)
24	Sales (purchases) of treasury shares	218
8	Change in restricted cash	(673)
	Net cash used for financing activities	(212,384)
	Effect of exchange rate changes on cash and cash equivalents	(6,398)
	Increase (decrease) in cash and cash equivalents	191,027
	Cash and cash equivalents, at the beginning of the reporting year	249,759
	Cash and cash equivalents, at the end of the reporting year	440,786


A.B. Miller
Chairman of the Management Committee
2011


E.A. Vasilieva
Chief Accountant
2011

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

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

(in millions of Russian Rubles)

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

A.B. Miller
Chairman of the Management Committee

23 April 2011

E.A. Vasilieva
Chief Accountant

22 April 2011

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

1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

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

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

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

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

3 BASIS OF PRESENTATION

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

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

4 SCOPE OF CONSOLIDATION

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

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

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

4 SCOPE OF CONSOLIDATION (continued)

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Group accounting

Changes in accounting policy

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010. IFRS 3 (revised) "Business combinations", and consequential amendments to IAS 27 "Consolidated and separate financial statements", IAS 28 "Investments in associates", and IAS 31 "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised IFRS 3 continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The revised standard was applied to all acquisitions of controlling interests in 2010.

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

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

Subsidiary undertakings

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Goodwill and non-controlling interest

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

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

Associated undertakings, jointly controlled entities and joint ventures

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

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

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

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

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

5.2 Financial instruments

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

Accounting for financial guarantee contracts

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fair value disclosure

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

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

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

5.3 Derivative financial instruments

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

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

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

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

5.4 Non derivative financial assets

The Group classifies its financial assets in the following categories:

- (a) financial assets at fair value through profit or loss,
- (b) available-for-sale financial assets, and
- (c) loans and receivables.

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Available-for-sale financial assets

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

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

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

(c) Loans and receivables

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

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

Impairment of financial assets

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.5 Options on purchase or sale of financial assets

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

5.6 Cash and cash equivalents and restricted cash

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

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

5.7 Value added tax

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

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

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

5.8 Natural resources production tax

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

5.9 Customs duties

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

5.10 Inventories

Inventories are valued at the lower of net realisable value and cost. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses and completion costs.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.11 Property, plant and equipment

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

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

Property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Interest costs on borrowings are capitalised as part of the cost of assets under construction during the period of time that is required to construct and prepare the asset for its intended use. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.12 Impairment of non-current non-financial assets

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

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

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

5.13 Borrowings

Borrowings are recognised initially at their fair value which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are recognised at amortised cost, using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

5.14 Deferred tax

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

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

5.15 Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official exchange rates prevailing at the reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the reporting date are recognised as exchange gains or losses within the profit and loss section of the consolidated statement of comprehensive income.

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.16 Provisions for liabilities and charges

Provisions, including provisions for pensions, environmental liabilities and asset retirement obligations, are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. As obligations are determined, they are recognised immediately based on the present value of the expected future cash outflows arising from the obligations. Initial estimates (and subsequent revisions to the estimates) of the cost of dismantling and removing the property, plant and equipment are capitalized as property, plant and equipment.

5.17 Equity

Treasury shares

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

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

Dividends

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

5.18 Revenue recognition

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

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

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

Promissory notes

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

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

Trading activity

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.19 Interest

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

5.20 Research and development

Research expenditure is recognised as an expense as incurred. Development expenditure is recognised as intangible assets (within other non-current assets) to the extent that such expenditure is expected to generate future economic benefits. Other development expenditures are recognised as an expense as incurred. However, development costs previously recognised as an expense are not recognised as an asset in a subsequent period, even if the asset recognition criteria are subsequently met.

5.21 Employee benefits

Pension and other post-retirement benefits

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

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

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

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

Social expenses

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

5.22 Recent accounting pronouncements

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

(a) Standards, Amendments or Interpretations effective in 2010

IFRIC 17 "Distributions of Non-cash Assets to Owners" ("IFRIC 17") which is effective for annual periods beginning on or after 1 July 2009. The interpretation provides guidance on accounting for distribution of assets other than cash (non-cash assets) as dividends to its owners acting in their capacity as owners. It also clarifies the situations, when an entity gives its owners a choice of receiving either non-cash assets or a cash alternative. The application of this interpretation did not materially affect the Group's consolidated financial statements.

IFRIC 18 "Transfers of Assets from Customers" ("IFRIC 18") which is effective for annual periods beginning on or after 1 July 2009. The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The application of this interpretation did not materially affect the Group's consolidated financial statements.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

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

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

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

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

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

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

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

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

6.1 Consolidation of subsidiaries

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

6.2 Tax legislation and uncertain tax position

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 43).

The Group’s uncertain tax positions (potential tax gains and losses) are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management based on the interpretation of current tax laws. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle tax obligations at the balance sheet date.

6.3 Assumptions to determine amount of provisions

Impairment provision for accounts receivable

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

Impairment of Property plant and equipment

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

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

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

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

Accounting for provisions

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

6.4 Site restoration and environmental costs

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

6.5 Useful lives of property, plant and equipment

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

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

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

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

6.6 Fair value estimation for financial instruments

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

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

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

6.7 Fair value estimation for acquisitions

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

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

6.8 Accounting for plan assets and pension liabilities

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

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

7 SEGMENT INFORMATION

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

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

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

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

The inter-segment sales mainly consist of:

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

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

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

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

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

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

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

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

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

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

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

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

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

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

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

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

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

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

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

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

8 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Balances included within cash and cash equivalents in the consolidated balance sheet represent cash on hand and balances with banks. Restricted cash balances include cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings. As of 31 December 2010 and 2009 restricted cash includes cash balances of RR nil and RR 1,233, respectively, in banking subsidiaries, which are restricted as to withdrawal under banking regulations. As of 31 December 2009 these balances of banking subsidiaries were mainly attributable to ZAO Gazenergoprombank that was deconsolidated in April 2010 (see Note 39).

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

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

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

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

9 SHORT-TERM FINANCIAL ASSETS

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

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

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

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

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

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

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

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

OA OGAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

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

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

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

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

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

As of 31 December 2010 and 2009, trade receivables of RR 22,570 and RR 26,004, respectively, were past due but not impaired. These mainly relate to a number of customers for whom there is no recent history of material default. The ageing analysis of these trade receivables is as follows:

Ageing from the due date	31 December	
	2010	2009
Up to 6 months	7,722	14,326
From 6 to 12 months	2,358	6,645
From 1 to 3 years	12,374	3,196
More than 3 years	116	1,837
	22,570	26,004

As of 31 December 2010 and 2009, trade receivables of RR 162,924 and RR 132,602, respectively, were impaired and provided for. The amount of the provision was RR 162,374 and RR 126,977 as of 31 December 2010 and 2009, respectively. The individually impaired receivables mainly relate to gas sales to certain Russian regions and FSU countries, which are in difficult economic situations. In the management's view a portion of the receivables will be recovered. The ageing analysis of these receivables is as follows:

Ageing from the due date	Gross book value		Provision		Net book value	
	31 December		31 December		31 December	
	2010	2009	2010	2009	2010	2009
Up to 6 months	22,184	15,129	(22,105)	(12,546)	79	2,583
From 6 to 12 months	15,758	19,107	(15,735)	(17,724)	23	1,383
From 1 to 3 years	51,223	38,893	(50,881)	(38,402)	342	491
More than 3 years	73,759	59,473	(73,653)	(58,305)	106	1,168
	162,924	132,602	(162,374)	(126,977)	550	5,625

As of 31 December 2010 and 2009, trade receivables of RR 377,132 and RR 361,925, respectively, were neither past due nor impaired. Management's experience indicates customer payment histories vary by geography. The credit quality of these assets can be analysed as follows:

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

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

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

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

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

** If there is no probability of cash receipt for the impaired accounts receivable which were previously provided for, the amount of respective accounts receivable is written-off by means of that provision.

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

11 INVENTORIES

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

OA OGAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

12 PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
As of 31.12.08								
Cost	1,802,481	710,643	1,348,119	1,332,316	328,745	82,248	759,007	6,363,559
Accumulated depreciation	(871,666)	(270,660)	(605,343)	(494,672)	(73,964)	(26,732)	-	(2,343,037)
Net book value as of 31.12.08	930,815	439,983	742,776	837,644	254,781	55,516	759,007	4,020,522
Depreciation	(47,962)	(26,139)	(81,698)	(48,254)	(17,988)	(2,404)	-	(224,445)
Additions	97	56	8,113	1,062	19,960	394	737,560	767,242
Acquisition of subsidiaries	-	18,885	110,059	116,323	102,060	51	42,614	389,992
Translation differences	(1,110)	(2,387)	(1,622)	(5,018)	(587)	(65)	(2,512)	(13,301)
Transfers	62,986	92,362	147,339	129,086	-	857	(432,630)	-
Disposals	(625)	(2,923)	(3,839)	(7,479)	-	(2,890)	(13,348)	(31,104)
Charge of impairment provision	-	-	(2,013)	(1,623)	-	-	(6,047)	(9,683)
Net book value as of 31.12.09	944,201	519,837	919,115	1,021,741	358,226	51,459	1,084,644	4,899,223
As of 31.12.09								
Cost	1,863,068	813,580	1,606,630	1,559,210	450,178	78,487	1,084,644	7,455,797
Accumulated depreciation	(918,867)	(293,743)	(687,515)	(537,469)	(91,952)	(27,028)	-	(2,556,574)
Net book value as of 31.12.09	944,201	519,837	919,115	1,021,741	358,226	51,459	1,084,644	4,899,223
Depreciation	(48,912)	(29,954)	(96,359)	(54,576)	(16,557)	(2,425)	-	(248,783)
Additions	39	10	12,420	3,223	1,394	1,713	996,358	1,015,157
Acquisition of subsidiaries	-	-	4,750	9,521	-	-	232	14,503
Translation differences	393	55	136	396	(6)	20	868	1,862
Transfers	96,153	101,831	185,715	169,124	930	6,656	(560,409)	-
Disposals	(579)	(3,168)	(24,016)	(7,959)	(2,290)	(2,448)	(32,649)	(73,109)
Disposals of subsidiaries	-	(1,105)	(1,012)	(8,459)	(98,148)	(3)	(13,076)	(121,803)
Charge of impairment provision	-	-	-	-	-	-	(621)	(621)
Net book value as of 31.12.10	991,295	587,506	1,000,749	1,133,011	243,549	54,972	1,475,347	5,486,429
As of 31.12.10								
Cost	1,959,053	910,240	1,787,674	1,722,143	352,058	82,818	1,475,347	8,289,333
Accumulated depreciation	(967,758)	(322,734)	(786,925)	(589,132)	(108,509)	(27,846)	-	(2,802,904)
Net book value as of 31.12.10	991,295	587,506	1,000,749	1,133,011	243,549	54,972	1,475,347	5,486,429

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

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

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

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

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

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

13 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES

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

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

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

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

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

OA OGAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

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

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

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

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

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

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

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

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

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

* Presented revenue of Gazprombank Group is reported according to the Group accounting policy and includes revenue of media business, machinery business and other non-banking companies. Profit of Gazprombank Group includes profit from discontinued operations (petrochemical business) in amount RR 14,730.

** The revenues and profits of Salym Petroleum Development N.V. for the year ended 31 December 2009 are disclosed from the date of acquisition.

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

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

Principal associated undertakings and jointly controlled entities

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

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

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

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

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

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

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

14 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

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

As of 31 December 2010 and 2009 long-term accounts receivable included RR nil and RR 62,967, respectively, relating to the operations of Group's banking subsidiaries. This balance mainly represents deposits and long-term loans issued to customers at commercial rates based on credit risk and maturities. As of 31 December 2009 these assets of banking subsidiaries were mainly attributable to ZAO Gazenergoprombank that was deconsolidated in April 2010 (see Note 39).

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

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

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

14 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

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

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

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

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

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

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

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

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

15 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

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

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

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

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

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

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

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

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

The maximum exposure to credit risk at the reporting date is the fair value of the debt securities classified as available-for-sale. The impairment of available-for-sale assets has been performed using the quoted market prices.

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

16 OTHER NON-CURRENT ASSETS

Included within other non-current assets is VAT recoverable related to assets under construction totalling RR 107,969 and RR 87,255 as of 31 December 2010 and 2009 respectively.

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

17 ACCOUNTS PAYABLE AND ACCRUED CHARGES

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

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

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

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

18 OTHER TAXES PAYABLE

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

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

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

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

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

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

Fair values approximate the carrying value of these liabilities.

20 LONG-TERM BORROWINGS AND PROMISSORY NOTES

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

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

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

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

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

¹ Issuer of these bonds is Gaz Capital S.A.

² Loans received from syndicate of banks, named lender is the bank-agent.

³ Issuer of these notes is Gazprom International S.A.

⁴ Loans were obtained for development of Yuzhno-Russkoye oil and gas field.

⁵ Issuers of these notes are OA O WGC-2 and OA O WGC-6.

⁶ Issuer of these bonds is OA O Mosenergo.

⁷ Issuer of these bonds is OA O Gazprom neft.

⁸ Issuer of these bonds is OA O TGC-1.

	31 December	
	2010	2009
RR denominated borrowings (including current portion of RR 28,473 and RR 15,778 as of 31 December 2010 and 2009, respectively)	129,071	154,887
Foreign currency denominated borrowings (including current portion of RR 99,098 and RR 217,901 as of 31 December 2010 and 2009, respectively)	<u>1,122,895</u>	<u>1,263,249</u>
	1,251,966	1,418,136
Due for repayment:		
	2010	2009
Between one and two years	166,853	162,848
Between two and five years	551,310	527,212
After five years	<u>406,232</u>	<u>494,397</u>
	1,124,395	1,184,457

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

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

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

In 2010 and 2009 the Group did not have material formal hedging arrangements to mitigate its foreign exchange risk or interest rate risk.

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

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

As of 31 December 2010 and 2009 long-term borrowings of RR 22,747 and RR 27,118, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Western Europe.

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

The long-term promissory notes payable had average interest rates ranging from 4.03% to 8.47% during 2009. These promissory notes payable had defined maturity dates from a year to five years.

21 PROFIT TAX

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

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

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

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

21 PROFIT TAX (continued)

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

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

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

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

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

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

In accordance with the tax legislation of the Russian Federation tax losses and current tax assets of a company of the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is separately determined for main activities, income from operations with securities and service activities. Tax losses arising from one type of activity can not be offset with taxable profit of other types of activity. Also, a deferred tax asset of one company (type of activity) of the Group can not be offset against a deferred tax liability of another company (type of activity). As of 31 December 2010 and 2009 deferred tax assets on temporary differences in the amount of RR 27,154 and RR 24,129 respectively, have not been recorded because it is not probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilised.

22 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

22 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

Fair value

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

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

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

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

23 PROVISIONS FOR LIABILITIES AND CHARGES

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

The Group operates a defined benefit plan, concerning the majority of its employees. These benefits include pension benefits provided by the non-governmental pension fund, NPF Gazfund and certain post-retirement benefits, from the Group at their retirement date.

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

23 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Principal actuarial assumptions used:

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

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

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

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

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

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

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

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

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

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

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

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

23 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Changes in the plan assets are as follows:

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

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

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

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

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

Funded status of the plan:

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

For 2010, 2009, 2008 and 2007, experience adjustments on plan assets amounted to RR 127,823 loss, RR 230,184 gain, RR 358,806 loss and RR 33,514 loss and experience adjustments on plan liabilities amounted to RR 51,447 gain, RR 36,185 loss, RR 124,592 loss and RR 43,259 loss respectively.

24 EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2010 and 2009 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Roubles.

Dividends

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

Treasury shares

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

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

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

24 EQUITY (continued)

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

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Rouble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29 "Financial Reporting in Hyperinflation Economies". Also, retained earnings and other reserves include translation gains arising on the translation of the net assets of foreign subsidiaries, associated undertakings and jointly controlled entities in the amount of RR 40,764 and RR 51,045 as of 31 December 2010 and 2009, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of these assets to governmental authorities and this process may continue. Social assets with a net book value of RR 756 and RR 1,647 have been transferred to governmental authorities during the years ended 31 December 2010 and 2009 respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with RAR. For 2010 year, the statutory profit of the parent company was RR 364,577. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

25 SALES

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

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

26 OPERATING EXPENSES

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

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

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

Taxes other than on income consist of:

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

27 FINANCE INCOME AND EXPENSES

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

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

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

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

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

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

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

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

There are no dilutive financial instruments outstanding.

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

30 NET CASH PROVIDED BY OPERATING ACTIVITIES

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

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

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

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

31 SUBSIDIARY UNDERTAKINGS
Principal subsidiaries

Subsidiary undertaking	Location	% of share capital as of 31 December*	
		2010	2009
ООО Авиапредприятие Газпром авиа	Russia	100	100
ОАО Арктическая газовая компания****	Russia	-	100
ЗАО АрмРосгазпром	Armenia	80	80
Vemex s.r.o	Czech Republic	50	50
ОАО Востокгазпром	Russia	100	100
ООО Газовые Магистраль Тумени	Russia	100	-
ООО Газпром бурение	Russia	100	100
ООО Газпром ВНИИГАЗ	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Газпром Геросгаз Holding B.V.	Netherlands	100	100
Газпром Global LNG Ltd.	United Kingdom	100	100
ООО Газпром добыча Астрахан	Russia	100	100
ООО Газпром добыча Краснодар	Russia	100	100
ООО Газпром добыча Красноярск	Russia	100	100
ООО Газпром добыча Надым	Russia	100	100
ООО Газпром добыча Ноябрьск	Russia	100	100
ООО Газпром добыча Оренбург	Russia	100	100
ООО Газпром добыча Уренгой	Russia	100	100
ООО Газпром добыча shelf	Russia	100	100
ООО Газпром добыча Яamburg	Russia	100	100
Газпром EP International B.V.	Netherlands	100	100
ООО Газпром инвест Восток	Russia	100	100
ООО Газпром инвест Запад	Russia	100	100
ЗАО Газпром инвест Yug	Russia	100	100
ООО Газпром investholding	Russia	100	100
ООО Газпром inform	Russia	100	-
ООО Газпром комплектация	Russia	100	100
Газпром Libyen Verwaltungs GmbH	Germany	100	100
Газпром Marketing and Trading Ltd.	United Kingdom	100	100
ООО Газпром межрегионгаз (ООО Межрегионгаз)	Russia	100	100
ЗАО Газпром нефть Оренбург	Russia	100	100
Газпром нефть Trading GmbH **	Austria	100	100
ООО Газпром нефть shelf	Russia	100	100
ОАО Газпром нефть	Russia	96	96
ООО Газпром переработка	Russia	100	100
ООО Газпром подземремонт Оренбург	Russia	100	100
ООО Газпром подземремонт Уренгой	Russia	100	100
ООО Газпром PKhG	Russia	100	100
Газпром Sakhalin Holding B.V.	Netherlands	100	100
ООО Газпром торгсервис	Russia	100	100
ООО Газпром трансгаз Волгоград	Russia	100	100
ООО Газпром трансгаз Екатеринбург	Russia	100	100
ООО Газпром трансгаз Казань	Russia	100	100
ООО Газпром трансгаз Махачкала	Russia	100	100
ООО Газпром трансгаз Москва	Russia	100	100
ООО Газпром трансгаз Нижний Новгород	Russia	100	100
ООО Газпром трансгаз Самара	Russia	100	100
ООО Газпром трансгаз St. Petersburg	Russia	100	100
ООО Газпром трансгаз Саратов	Russia	100	100
ООО Газпром трансгаз Ставрополь	Russia	100	100
ООО Газпром трансгаз Surgut	Russia	100	100

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

31 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December*	
		2010	2009
ООО Газпром трансгаз Томск	Russia	100	100
ООО Газпром трансгаз Уфа	Russia	100	100
ООО Газпром трансгаз Ухта	Russia	100	100
ООО Газпром трансгаз Чайковский	Russia	100	100
ООО Газпром трансгаз Югорск	Russia	100	100
ООО Газпром трансгаз-Кубань	Russia	100	100
Газпром Finance B.V.	Netherlands	100	100
ООО Газпром Тендермонт	Russia	100	100
ООО Газпром экспорт	Russia	100	100
ООО Газпром энерго	Russia	100	100
ООО Газпром энергохолдинг	Russia	100	100
ООО Газпромнефть-Восток **	Russia	100	100
ЗАО Газпромнефть-Кузбасс **	Russia	100	100
ОАО Газпромнефть-Ноябрьскнефтегаз **	Russia	100	100
ОАО Газпромнефть-Омск **	Russia	100	100
ОАО Газпромнефть-Омский НПЗ **	Russia	100	100
ЗАО Газпромнефть-Северо-Запад **	Russia	100	100
ООО Газпромнефтьфинанс **	Russia	100	100
ООО Газпромнефть-Хантос**	Russia	100	100
ООО Газпромнефть-Центр **	Russia	100	100
ООО ГазпромPurlInvest	Russia	100	100
ОАО Газпромregiongaz	Russia	100	100
ООО Газпромтранс	Russia	100	100
ОАО Газпромтрубинвест	Russia	100	100
ООО Газфлот	Russia	100	100
ЗАО Газэнергопромбанк*****	Russia	-	73
ООО Геоэсурс	Russia	100	100
ЗАО Грогаз	Russia	-	100
ОАО Далтрансгаз	Russia	100	73
ООО Запоярнефть**	Russia	100	100
ОАО Запсибгазпром	Russia	77	77
ZMB (Schweiz) AG	Switzerland	100	100
ЗАО Каунасская power station	Lithuania	99	99
ОАО Красноярскгазпром	Russia	75	75
ОАО Московский НПЗ **	Russia	77	77
ОАО Мосэнерго	Russia	53	53
ОАО Нефтегазтехнология****	Russia	-	100
Нафна Индустрија Србије **	Serbia	51	51
ООО НК Сибнефть-Югра **	Russia	100	100
ООО Новоренгоуский GCC	Russia	100	100
ОАО WGC-2	Russia	58	58
ОАО WGC-6	Russia	61	61
ЗАО Пургаз	Russia	51	51
ОАО Регионгазхолдинг	Russia	56	56
ЗАО Росшельф	Russia	57	57
ЗАО РШ-Центр	Russia	100	100
ОАО Севернефтегазпром ***	Russia	50	50
ООО СеверЭнергия****	Russia	-	51
Сибир Energy Ltd (Сибир Energy plc)**	United Kingdom	78	55
ООО Сибметалхим	Russia	100	100
АКБ Союз (ОАО)	Russia	-	75
ОАО Спецгазавтотранс	Russia	51	51
ОАО ТГК-1	Russia	52	52
ОАО Томскгазпром	Russia	100	100

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

31 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December*	
		2010	2009
ZAO Urengoi Inc.****	Russia	-	100
OOO Faktoring-Finance	Russia	90	90
OAo Tsentr-gaz	Russia	100	100
OAo Tsentr-energo-gaz	Russia	66	66
ZAO Yamal-gazinvest	Russia	100	100

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

** Subsidiaries of OAo Gazprom neft. The company Sibir Energy plc was re-registered from being a public company to a private company in 2011.

*** Group's voting shares.

**** In November 2010 the Group sold its entire 51% controlling interest in OOO SeverEnergiya to OOO Yamal razvitie. As the result, the Group has lost control over OOO SeverEnergiya and its subsidiaries (see note 36).

***** In April 2010 ZAO Gazenergo-prombank was reorganized in the form of the merger to OAo AB Rossiya (see note 39).

32 NON-CONTROLLING INTEREST

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

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

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

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

OAQ GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

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

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

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

34 PURCHASE OF NON-CONTROLLING INTEREST IN OAO GAZPROM NEFT

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

35 ACQUISITION OF THE CONTROLLING INTEREST IN SIBIR ENERGY PLC

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

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

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

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

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

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

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

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

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

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

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

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

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

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

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

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

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

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

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

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

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

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

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

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

37 ACQUISITION OF THE CONTROLLING INTEREST IN OAO TGC-1

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

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

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

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

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

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

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

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

38 SWAP OF ASSETS WITH E.ON RUHRGAS AG

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

39 DECONSOLIDATION OF ZAO GAZENERGOPROMBANK

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

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

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

40 DISPOSAL OF INTEREST IN OAO NOVATEK

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

OAQ GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

40 DISPOSAL OF INTEREST IN OAQ NOVATEK (continued)

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

41 RELATED PARTIES

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

Government

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

As of 31 December 2010 38.373% of OAQ Gazprom issued shares were directly owned by the Government. Another 11.629% were owned by Government controlled entities. The Government does not prepare financial statements for public use. Following the General Meeting of Shareholders in June 2009, the 11 seats on the Board of Directors include six State representatives, two independent directors and management representatives. Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

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

Parties under control of the Government

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

As of and for the years ended 31 December 2010 and 2009 respectively, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

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

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

41 RELATED PARTIES (continued)

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

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

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

See consolidated statement of changes in equity for returns of social assets to governmental authorities during years ended 31 December 2010 and 2009. See Note 12 for net book values as of December 2010 and 2009 of social assets vested to the Group at privatisation.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of OAo Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of Group companies, amounted to approximately RR 1,561 and RR 1,382 for the years ended 31 December 2010 and 2009 respectively. Such amounts include personal income tax and unified social tax. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and a one-time payment from the Group at their retirement date. The employees of the majority of Group companies are eligible for such benefits after retirement.

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

Associated undertakings and jointly controlled entities

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

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

41 RELATED PARTIES (continued)

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

* Wintershall Erdgas Handelshaus Zug AG (WIEE) is the subsidiary of Wintershall Erdgas Handelshaus GmbH & Co. KG (WIEH).

** OAo TGC-1 is consolidated from the date of acquisition of controlling interest in December 2009 (see Note 37).

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

41 RELATED PARTIES (continued)

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

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

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

41 RELATED PARTIES (continued)

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

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

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

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

42 COMMITMENTS AND CONTINGENCIES

Financial guarantees

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

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

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

42 COMMITMENTS AND CONTINGENCIES (continued)

In July 2005 Blue Stream Pipeline Company B.V. (BSPC) refinanced some of the existing liabilities, guaranteed by the Group, by means of repayment of the liabilities to a group of Italian and Japanese banks. For the purpose of this transaction loans in the amount of USD 1,185.3 million were received from Gazstream S.A. The Group guaranteed the above loans. As of 31 December 2010 and 2009, outstanding amounts of these loans were RR 12,974 (USD 426 million) and RR 18,317 (USD 606 million), respectively, which were guaranteed by the Group, pursuant to its obligations.

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

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

In January 2008 the Group provided a guarantee to Europipe GmbH, supplier of large-diameter steel pipes, on behalf of Nord Stream AG related to pipe supply contract for construction of Nord Stream pipeline. As of 31 December 2009 the above guarantee amounted to RR 2,655 (Euro 61 million). As of 31 December 2010 this loan was repaid.

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

In May 2008 the Group provided a guarantee to OAO Bank of Moscow on behalf of OAO Group E4 as a security of loans for obligations under contracts for delivering of power units. As of 31 December 2010 and 2009 the above guarantee amounted to RR 1,450 (Euro 36 million) and RR 3,729 (Euro 86 million), respectively.

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

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

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

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

42 COMMITMENTS AND CONTINGENCIES (continued)

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

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

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

Capital commitments

In November 2010 the Board of Directors approved a RR 816 billion investment programme for 2011. Currently the company is reviewing the investment program.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2010 no loss is expected to result from these long-term commitments.

43 OPERATING RISKS

Operating environment

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

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

Legal proceedings

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

Taxation

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

Management believes that its interpretation of the relevant legislation as of 31 December 2010 is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

Group changes

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

43 OPERATING RISKS (continued)

Environmental matters

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

Social commitments

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

Financial crisis and economic downturn

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

44 FINANCIAL RISK FACTORS

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

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

Market risk

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

(a) Foreign exchange risk

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

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

44 FINANCIAL RISK FACTORS (continued)

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

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

GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

44 FINANCIAL RISK FACTORS (continued)

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

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in selected foreign currencies.

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

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

(b) Cash flow and fair value interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group's interest rate risk primarily arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The table below summarises the balance between long-term borrowings at fixed and at variable interest rates:

Long-term borrowings	31 December	
	2010	2009
At fixed rate	1,065,435	1,149,288
At variable rate	186,531	268,848
Total	1,251,966	1,418,136

The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether obtaining financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

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

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

44 FINANCIAL RISK FACTORS (continued)

variables held constant, profit before profit tax would have been lower by RR 5,377 for 2009. The effect of a corresponding decrease in interest rate is approximately equal and opposite.

(c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in development activities and could cause a decrease in the volume of reserves available for transportation and processing through the Group's systems or facilities and ultimately impact the Group's ability to deliver under its contractual obligations.

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

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

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

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

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

(d) Securities price risk

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

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

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

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

Credit risk

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

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

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

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

44 FINANCIAL RISK FACTORS (continued)

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

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

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

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

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

Liquidity risk

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

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

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of 31 December 2010					
Short-term and long-term loans and borrowings	94,746	96,099	166,853	551,310	406,232
Trade and other payables	530,572	18,211	-	-	-
Financial guarantees	7,193	43,342	17,145	74,811	98,886
As of 31 December 2009					
Short-term and long-term loans and borrowings	163,876	260,979	162,848	527,212	494,397
Trade and other payables	456,801	13,455	-	-	-
Financial guarantees	18,968	17,794	15,437	46,594	89,493

See discussion of financial derivatives in Note 22.

The Group's borrowing facilities do not usually include financial covenants which could trigger accelerated reimbursement of financing facilities.

44 FINANCIAL RISK FACTORS (continued)

Capital risk management

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

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

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

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

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

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

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

45 POST BALANCE SHEET EVENTS

Investments

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

Borrowings and loans

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

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

Other

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

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

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In millions of Russian Roubles)

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ОАО ГАЗПРОМ

IFRS Consolidated Financial Statements as of and for the year ended December 31, 2009 with a comparison against the IFRS Consolidated Financial Statements as of and for the year ended December 31, 2008

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of OAO Gazprom

We have audited the accompanying consolidated financial statements of OAO Gazprom and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Without qualifying our opinion, we draw your attention to Notes 24 and 41 to the consolidated financial statements. The Government of the Russian Federation has a controlling interest in OAO Gazprom and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
29 April 2010

OAO GAZPROM
IFRS CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2009
(In millions of Russian Roubles)

Notes	31 December		
	2009	2008	
Assets			
Current assets			
8	Cash and cash equivalents	249,759	343,833
8	Restricted cash	4,872	3,747
9	Short-term financial assets	52,137	23,448
10	Accounts receivable and prepayments	842,914	675,934
11	Inventories	286,719	276,954
	VAT recoverable	144,691	115,878
	Other current assets	107,044	132,281
		1,688,136	1,572,075
Non-current assets			
12, 40	Property, plant and equipment	4,893,918	4,020,522
13, 40	Investments in associated undertakings and jointly controlled entities	794,705	772,143
14	Long-term accounts receivable and prepayments	413,309	343,805
15	Available-for-sale long-term financial assets	106,658	48,186
16	Other non-current assets	466,489	411,837
		6,675,079	5,596,493
	Total assets	8,363,215	7,168,568
Liabilities and equity			
Current liabilities			
17	Accounts payable and accrued charges	502,075	466,757
21	Current profit tax payable	37,267	6,774
18	Other taxes payable	71,057	50,622
19	Short-term borrowings and current portion of long-term borrowings	424,855	432,640
19	Short-term promissory notes payable	11,761	8,052
		1,047,015	964,845
Non-current liabilities			
20	Long-term borrowings	1,184,457	923,230
20	Long-term promissory notes payable	4,592	1,718
23	Provisions for liabilities and charges	143,591	85,807
21	Deferred tax liabilities	320,463	265,279
	Other non-current liabilities	17,151	14,590
		1,670,254	1,290,624
	Total liabilities	2,717,269	2,255,469
Equity			
24	Share capital	325,194	325,194
24	Treasury shares	(104,204)	(597)
24	Retained earnings and other reserves	5,105,525	4,280,518
		5,326,515	4,605,115
32	Non-controlling interest	319,431	307,984
	Total equity	5,645,946	4,913,099
	Total liabilities and equity	8,363,215	7,168,568

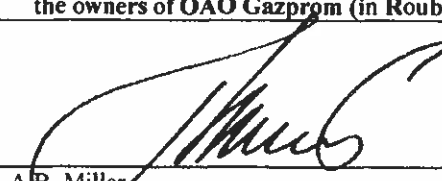

A.B. Miller
Chairman of the Management Committee
29 April 2010


E.A. Vasilieva
Chief Accountant
29 April 2010

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

OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009
(In millions of Russian Roubles)

Notes		Year ended 31 December	
		2009	2008
25	Sales	2,990,971	3,285,486
5	Net gain from trading activity	8,295	4,221
26	Operating expenses	(2,096,926)	(1,930,437)
40	Impairment provision and other provisions	<u>(45,428)</u>	<u>(98,964)</u>
	Operating profit	856,912	1,260,306
35	Purchase of non-controlling interest in OAO Gazprom neft	13,865	-
	Loss from change in fair value of call option	-	(50,738)
39	Gain from swap of assets transaction	105,470	-
27	Finance income	375,799	165,603
27	Finance expense	(441,487)	(341,179)
13, 40	Share of net income (loss) of associated undertakings and jointly controlled entities	62,557	(16,686)
	Gains on disposal of available-for-sale financial assets	<u>6,319</u>	<u>14,326</u>
	Profit before profit tax	979,435	1,031,632
	Current profit tax expense	(182,255)	(307,094)
	Deferred profit tax (expense) benefit	<u>(3,387)</u>	<u>46,842</u>
21	Profit tax expense	(185,642)	(260,252)
	Profit for the year	793,793	771,380
	Other comprehensive income		
	Gains (losses) arising from change in fair value of available-for-sale financial assets, net of tax	32,193	(58,105)
	Share of other comprehensive income (losses) of associated undertakings and jointly controlled entities	7,098	(4,972)
	Translation differences	1,704	20,340
	Revaluation of equity interest	<u>9,911</u>	-
	Other comprehensive income (loss) for the year, net of tax	50,906	(42,737)
	Total comprehensive income for the year	844,699	728,643
	Profit attributable to:		
	owners of OAO Gazprom	779,585	742,928
32	non-controlling interest	<u>14,208</u>	<u>28,452</u>
		793,793	771,380
	Total comprehensive income attributable to:		
	owners of OAO Gazprom	835,182	699,071
	non-controlling interest	<u>9,517</u>	<u>29,572</u>
		844,699	728,643
29	Basic and diluted earnings per share for profit attributable to the owners of OAO Gazprom (in Roubles)	33.18	31.49

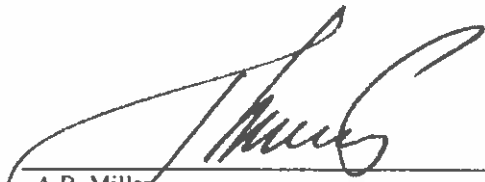

A.B. Miller
Chairman of the Management Committee
29 April 2010


E.A. Vasilieva
Chief Accountant
29 April 2010

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

OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009
(In millions of Russian Roubles)

Notes	Year ended 31 December	
	2009	2008
	Operating activities	
30	Net cash provided by operating activities	897,154 1,016,551
	Investing activities	
12	Capital expenditures	(795,640) (714,714)
	Net change in loans made	(15,131) (38,084)
	Interest received	32,036 41,314
12	Interest paid and capitalised	(45,516) (28,001)
	Acquisition of subsidiaries, net of cash acquired	(74,100) 1,514
35	Purchase of non-controlling interest in OAO Gazprom Neft	(138,527) -
13	Investment in associated undertakings and jointly controlled entities	(37,148) (121,639)
4	Decrease in cash due to Gazprombank Group deconsolidation	- (47,242)
	Proceeds from sales of interest in subsidiary	2,904 5,875
13	Proceeds from associated undertakings and jointly controlled entities	77,611 33,159
	Net change of long-term available-for-sale financial assets	2,034 (20,649)
	Change in other long-term assets	(1,634) (7,131)
	Net cash used for investing activities	(993,111) (895,598)
	Financing activities	
20	Proceeds from long-term borrowings	572,828 217,248
20	Repayment of long-term borrowings (including current portion)	(408,252) (336,818)
	Net (repayment of) proceeds from issue of promissory notes	(3,122) 1,417
19	Net (repayment of) proceeds from short-term borrowings	(87,611) 185,386
24	Dividends paid	(16,733) (68,013)
	Interest paid	(58,794) (55,225)
24	Purchases of treasury shares	(58) (113,763)
24	Sales of treasury shares	- 107,400
8	Change in restricted cash	(1,125) (6,525)
	Net cash used for financing activities	(2,867) (68,893)
	Effect of exchange rate changes on cash and cash equivalents	4,750 12,664
	(Decrease) increase in cash and cash equivalents	(94,074) 64,724
	Cash and cash equivalents, at the beginning of the reporting year	343,833 279,109
	Cash and cash equivalents, at the end of the reporting year	249,759 343,833


A.B. Miller
Chairman of the Management Committee
29 April 2010


E.A. Vasilieva
Chief Accountant
29 April 2010

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

(In millions of Russian Roubles)

A.B. Miller
Chairman of the Management Committee
29 APRIL 2010

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

1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

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

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

The weighted average number of employees during 2009 and 2008 was 386 thousand and 456 thousand, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

3 BASIS OF PRESENTATION

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

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

4 SCOPE OF CONSOLIDATION

As described in Note 5, these financial statements consolidate subsidiaries, associated undertaking and joint ventures of the Group. Significant changes in the Group's structure in the 2009 and 2008 are described below.

In December 2009 the Group completed the series of transactions and accumulated 51.8% of ordinary shares of OAO TGC-1 and obtained control over OAO TGC-1 (see Note 38).

In September 2009 the Group acquired a 51% interest in OOO SeverEnergiya and obtained control over OOO SeverEnergiya (see Note 37).

In the period from April to June 2009 the Group acquired 54.71% of the ordinary shares of Sibir Energy plc and obtained control over Sibir Energy plc (see Note 36).

In February 2009 the Group acquired a 51% interest in Naftna Industrija Srbije and obtained control over Naftna Industrija Srbije (see Note 34).

4 SCOPE OF CONSOLIDATION (continued)

In July 2008, the Group obtained control over OAO WGC-2 and OAO WGC-6 with ownership interests amounting to 57.3% and 60.1%, respectively (see Note 33).

As a result of the change in the Board composition effective June 2008 the Group lost its ability to control the financial and operating policies of OAO Gazprombank and its subsidiaries, and ceased to consolidate OAO Gazprombank and its subsidiaries.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Group accounting

Subsidiary undertakings

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

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

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

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

Goodwill and non-controlling interest

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associated undertakings, jointly controlled entities and joint ventures

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

The equity method involves recognising within the profit and loss section of the consolidated statement of comprehensive income the Group's share of the associated undertakings' profit or loss for the year. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

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

5.2 Non derivative financial assets

The Group classifies its financial assets in the following categories:

- (a) financial assets at fair value through profit or loss,
- (b) available-for-sale financial assets, and
- (c) loans and receivables.

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

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

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

There were no material financial assets designated at fair value through profit or loss at inception as of 31 December 2009 and 2008.

(b) Available-for-sale financial assets

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(c) Loans and receivables

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

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

Impairment of financial assets

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

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

5.3 Derivative financial instruments

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5.4 Options on purchase or sale of financial assets

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

5.5 Cash and cash equivalents and restricted cash

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

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

5.6 Value added tax

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

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

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

5.7 Natural resources production tax

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

5.8 Customs duties

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.9 Inventories

Inventories are valued at the lower of net realisable value and cost. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses and completion costs.

5.10 Property, plant and equipment

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

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

Property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Interest costs on borrowings are capitalised as part of the cost of assets under construction during the period of time that is required to construct and prepare the asset for its intended use.

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

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

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

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

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

5.11 Impairment of non-current non-financial assets

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill acquired in a business combination is assessed for the recoverability of its carrying value annually irrespective of whether there is any indication that impairment exists at the balance sheet date. Goodwill acquired through business combinations is allocated to cash-generating unit (or groups of cash-generating units) that is expected to benefit from the synergies of the acquisition. In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit (including goodwill) is compared with the recoverable amount of the respective cash-generating unit (see Note 40).

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

5.12 Borrowings

Borrowings are recognised initially at their fair value which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are recognised at amortised cost, using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

5.13 Deferred tax

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

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

5.14 Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official exchange rates prevailing at the reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the reporting date are recognised as exchange gains or losses within the profit and loss section of the consolidated statement of comprehensive income.

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

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 30.24 and 29.38 as of 31 December 2009 and 2008, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 43.39 and 41.44 as of 31 December 2009 and 2008, respectively.

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

5.15 Provisions for liabilities and charges

Provisions, including provisions for pensions, environmental liabilities and asset retirement obligations, are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. As obligations are determined, they are recognised immediately based on the present value of the expected future cash outflows arising from the obligations. Initial estimates (and subsequent revisions to the estimates) of the cost of dismantling and removing the property, plant and equipment are capitalized as property, plant and equipment.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.16 Equity

Treasury shares

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

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

Dividends

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

5.17 Revenue recognition

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

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

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

Mutual cancellation and other non-cash transactions

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

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

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

Promissory notes

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

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

Reclassification

Contracts to buy or sell non-financial items entered into for trading purposes and which do not meet the expected own-use requirements, such as contracts to sell or purchase commodities that can be net settled in cash or settled by entering into another contract, are recognized at fair value and associated gains or losses are recorded as Net gain from trading activity. In 2009 the Group changed the presentation of sales and purchases associated with the contracts entered into for trading purposes. They are now presented on a separate line as Net gain from trading activity. Sales and purchases associated with such contracts used to be presented on a gross basis in sales and operating expenses. The presentation of 2008 comparative financial information has been changed to be consistent with the net presentation.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Starting from 2009, revenues generated by trading activities are reported as net figures, reflecting realized gross margins. Trading activities are mainly managed by Gazprom Marketing and Trading Ltd. subsidiary of the Group and relate partly to gas trading and power and emission rights trading activities.

5.18 Interest

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

5.19 Research and development

Research expenditure is recognised as an expense as incurred. Development expenditure is recognised as intangible assets (within other non-current assets) to the extent that such expenditure is expected to generate future economic benefits. Other development expenditures are recognised as an expense as incurred. However, development costs previously recognised as an expense are not recognised as an asset in a subsequent period, even if the asset recognition criteria are subsequently met.

5.20 Employee benefits

Pension and other post-retirement benefits

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

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

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

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

Social expenses

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

5.21 Financial instruments

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

Accounting for financial guarantee contracts

Financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value disclosure

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

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

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

5.22 Recent accounting pronouncements

In 2009 the Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2009 and which are relevant to its operations.

(a) Standards, Amendments or Interpretations effective in 2009

IFRS 8 “Operating Segments” (“IFRS 8”) is effective for reporting periods beginning on or after 1 January 2009. The standard replaces IAS 14 “Segment reporting” (“IAS 14”). The standard requires an entity to adopt the “management approach” to reporting of performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the statement of comprehensive income and balance sheet. The IFRS therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognized in the statement of comprehensive income and balance sheet. Segment disclosures under IFRS 8 are presented in Note 7.

Amendment to IAS 23 “Borrowing costs” (“IAS 23”) is effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 23 removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The application of these amendments did not affect the Group’s consolidated financial statements.

Amendment to IAS 1 “Presentation of Financial Statements” (“IAS 1”) is effective for reporting periods beginning on or after 1 January 2009. The main change in IAS 1 is the replacement of the statement of income by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The consolidated financial statements have been prepared under the revised presentation requirements.

Amendment to IAS 32 and IAS 1 (“Puttable financial instruments and obligations arising on liquidation”) is effective from 1 January 2009. The amendment requires classification of puttable financial instruments and instruments that impose an obligation to deliver a pro rata share of the net asset on liquidation as equity. This amendment did not affect the Group’s consolidated financial statements.

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRIC 15 "Agreements for the Construction of Real Estate" ("IFRIC 15") is effective for annual periods beginning on or after 1 January 2009. IFRIC 15 addresses diversity in accounting for real estate sales as some entities recognise revenue in accordance with IAS 18 "Revenue" (when the risks and rewards in the real estate are transferred) and others recognise revenue as the real estate is developed in accordance with IAS 11 "Construction Contracts". The interpretation clarifies which standard (IAS 18 or IAS 11) should be applied to particular transactions and is likely to mean that IAS 18 will be applied to a wider range of transactions. Entities that have previously recognised revenue from residential real estate sales under IAS 11 will be the most significantly affected and will probably be required to apply IAS 18. The application of this interpretation did not affect the Group's consolidated financial statements.

Amendment to IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7") is effective for annual periods beginning on or after 1 January 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy:

- Level 1- based on quoted price in an active market;
- Level 2- based on valuation technique with inputs observable in markets; and
- Level 3- based on valuation technique with significant non-observable inputs.

The amendment clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The group incorporated the amendments to IFRS 7 disclosure requirements in its consolidation financial statement.

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

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" ("IFRIC 16") is effective for annual periods beginning on or after 1 October 2008. This interpretation relates to the criteria required to apply hedge accounting in hedge of a net investment in a foreign operation in accordance with IAS 39 "Financial instruments: recognition and measurement" ("IAS 39"). The application of this interpretation did not materially affect the Group's consolidated financial statements.

Amendments to IFRIC 9 and IAS 39 "Embedded Derivatives" are effective for annual periods ending on or after 30 June 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The application of IFRIC 9 and IAS 39 "Embedded Derivatives" did not affect the Group's consolidated financial statements.

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Improvements to International Financial Reporting Standards (issued in April 2009). Amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010. The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; amending disclosure requirements for a measure of segment assets under IFRS 8; amending IAS 1 regarding non-current/current classification of liabilities settled by equity instruments; clarifying in IAS 7 that only expenditures that result in a recognised asset are eligible for classification as investing activities; clarifying the considerations for classification land leases and setting transition requirements for reclassification of unexpired leases in IAS 17; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination, providing additional guidance on techniques used in the absence of active market; supplementing IAS 39 to exclude from its scope certain forward contracts resulting in business combinations, to clarify the period of reclassifying gains or losses on the hedged instruments from equity to profit or loss and to provide guidance for circumstances when prepayment options are closely related to the host contract; clarification that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within the scope of IFRIC 9; and removal of the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

IFRIC 17 "Distributions of Non-cash assets to owners" ("IFRIC 17") which is effective for annual periods beginning on or after 1 July 2009. The interpretation provides guidance on accounting of distribution of assets other than cash (non-cash assets) as dividends to its owners acting in their capacity as owners. It also clarifies the situations, when entity gives its owners a choice of receiving either non-cash assets or a cash alternative. The Group will apply the interpretation starting from 1 January 2010.

IFRIC 18 "Transfers of Assets from customers" ("IFRIC 18") which is effective for annual periods beginning on or after 1 July 2009. The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The application of this interpretation is not expected to materially affect the Group's consolidated financial statements.

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

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

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

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

Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

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

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The application of this interpretation is not expected to materially affect the Group's consolidated financial statements.

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

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

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

6.1 Consolidation of subsidiaries

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

6.2 Tax legislation and uncertain tax position

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 43).

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

6.3 Assumptions to determine amount of provisions

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Group's assessment of the collectability and recoverable amount of specific customer accounts, being the present value of expected cash flows. If there is deterioration in a major customer's creditworthiness or actual defaults are higher or lower than the estimates, the actual results could differ from these estimates. The charges (and releases) for impairment of accounts receivable may be material (see Note 10 and 40).

Impairment of available-for-sale financial assets

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

Had all the declines in fair value below cost been considered significant or prolonged in 2009, the additional loss recorded would have been immaterial. In 2008 above mentioned declines led to losses being fully recognised.

Impairment of other assets

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

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

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

The value in use of assets or cash-generating units related to oil and gas operations are based on the cash flows expected from oil and gas production volumes, which include both proved reserves as well as certain volumes of those that are expected to constitute proved and probable reserves in the future. Impairment charges are given in Notes 12 and 40.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2009 would be an increase by RR 24,577 or a decrease by RR 20,109 (2008: increase by RR 21,668 or decrease by RR 17,729).

Accounting for provisions

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

6.4 Site restoration and environmental costs

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

6.5 Useful lives of property, plant and equipment

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

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

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

6.6 Fair value estimation for financial instruments

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

6.7 Fair value estimation for acquisitions

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

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

6.8 Accounting for plan assets and pension liabilities

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

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

7 SEGMENT INFORMATION

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

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

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

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

The inter-segment sales mainly consist of:

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

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

As of 31 December 2008 and for the year then ended electric and heat energy generation and sales activities did not qualify as a reportable operating segment. However, with the acquisition of certain power generating assets in the second half of 2008, those activities have been qualified as a reportable operating segment under IFRS 8 in 2009, and have been presented as such in the segment information below. Previously reported segment information has been restated accordingly.

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

OA OGAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

	Production of gas	Transport	Distribution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Year ended 31 December 2009									
Total segment revenues	305,829	551,536	2,082,297	20,308	364,473	547,350	198,954	146,915	4,217,662
Inter-segment sales	292,164	485,973	118,693	19,470	188,070	6,845	-	-	1,111,215
External sales	13,665	65,563	1,963,604	838	176,403	540,505	198,954	146,915	3,106,447
Segment result	42,145	16,902	524,195	4,303	79,531	48,994	15,315	(9,194)	722,191
Depreciation	67,432	226,740	4,525	6,893	37,307	17,372	13,175	14,062	387,506
Share of net income (loss) of associated undertakings and jointly controlled entities	7,138	940	19,980	-	15,788	(626)	975	18,362	62,557
Year ended 31 December 2008									
Total segment revenues	302,525	631,735	2,202,889	21,371	393,235	661,418	138,335	171,622	4,523,130
Inter-segment sales	290,847	561,050	118,021	20,994	178,280	8,462	-	-	1,177,654
External sales	11,678	70,685	2,084,868	377	214,955	652,956	138,335	171,622	3,345,476
Segment result	34,262	27,040	842,767	3,785	73,402	172,130	(41,060)	11,679	1,124,005
Depreciation	56,656	207,912	2,266	6,639	37,099	14,244	11,742	15,889	352,447
Share of net income (loss) of associated undertakings and jointly controlled entities	5,503	(4,506)	42,007	-	(19,944)	2,567	(6,950)	(35,363)	(16,686)

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

Note	For the year ended 31 December	
	2009	2008
Segment result	722,191	1,124,005
Difference in depreciation	166,309	157,431
Expenses associated with pension obligations	(7,677)	(7,104)
Expenses associated with other provisions	(2,181)	(3,398)
Loss from change in fair value of call option	-	(50,738)
35 Purchase of non-controlling interest in OAO Gazprom neft	13,865	-
39 Gain from swap of assets transaction	105,470	-
27 Finance expense, net	(65,688)	(175,576)
Gains on disposal of available-for-sale financial assets	6,319	14,326
13 Share of net income (loss) of associated undertakings and jointly controlled entities	62,557	(16,686)
Other	(21,730)	(10,628)
Profit before profit tax	979,435	1,031,632

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

	For the year ended 31 December	
	2009	2008
External sales for reportable segments	2,959,532	3,173,854
External sales for other segments	146,915	171,622
Total external segment sales	3,106,447	3,345,476
Differences in external sales	(115,476)	(59,990)
Total sales per the statement of comprehensive income	2,990,971	3,285,486

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

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

	Production of gas	Transport	Distribution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
31 December 2009									
Segment assets	<u>1,438,222</u>	<u>3,323,087</u>	<u>874,339</u>	<u>125,069</u>	<u>1,122,449</u>	<u>746,270</u>	<u>464,916</u>	<u>546,008</u>	<u>8,640,360</u>
Investments in associated undertakings and jointly controlled entities	102,503	102,801	88,991	-	438,655	34,439	-	27,316	794,705
Capital additions	218,921	231,723	27,185	9,549	84,749	41,557	26,139	20,959	660,782
31 December 2008									
Segment assets	<u>1,163,367</u>	<u>3,354,775</u>	<u>779,763</u>	<u>119,285</u>	<u>1,187,681</u>	<u>375,161</u>	<u>353,920</u>	<u>404,537</u>	<u>7,738,489</u>
Investments in associated undertakings and jointly controlled entities	81,865	71,860	73,375	-	450,774	51,996	32,313	9,960	772,143
Capital additions	220,213	227,485	34,701	8,224	84,548	49,553	37,976	27,319	690,019

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

	31 December 2009	31 December 2008
Segment assets for reportable segments	8,094,352	7,333,952
Other segments' assets	<u>546,008</u>	<u>404,537</u>
Total segment assets	8,640,360	7,738,489
Differences in property, plant and equipment, net*	(1,399,885)	(1,568,013)
Loan interest capitalised	143,967	107,287
Decommissioning costs	55,466	29,257
Cash and cash equivalents	249,759	343,833
Restricted cash	4,872	3,747
Short-term financial assets	52,137	23,448
VAT recoverable	144,691	115,878
Other current assets	107,044	132,281
Available-for-sale long-term financial assets	106,658	48,186
Other non-current assets	466,489	411,837
Inter-segment assets	(380,774)	(304,253)
Other	<u>172,431</u>	<u>86,591</u>
Total assets per the balance sheet	8,363,215	7,168,568

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

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

	Production of gas	Transport	Distribution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Total liabilities									
31 December 2009	111,421	135,788	195,403	1,407	213,572	98,194	35,760	141,694	933,239
31 December 2008	76,910	153,857	241,385	1,094	80,651	61,529	21,852	96,677	733,955

GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

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

	31 December 2009	31 December 2008
Segment liabilities for reportable segments	791,545	637,278
Other segments' liabilities	141,694	96,677
Total segments liabilities	933,239	733,955
Current profit tax payable	37,267	6,774
Short-term borrowings and current portion of long-term borrowings	424,855	432,640
Short-term promissory notes payable	11,761	8,052
Long-term borrowings	1,184,457	923,230
Long-term promissory notes payable	4,592	1,718
Provisions for liabilities and charges	143,591	85,807
Deferred tax liabilities	320,463	265,279
Other non-current liabilities	17,151	14,590
Dividends	1,924	7,519
Inter-segment liabilities	(380,774)	(304,253)
Other	18,743	80,158
Total liabilities per the balance sheet	2,717,269	2,255,469

8 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Balances included within cash and cash equivalents in the consolidated balance sheet represent cash on hand and balances with banks. Restricted cash balances include cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings. In addition, restricted cash comprises cash balances of RR 1,233 and RR 162 as of 31 December 2009 and 2008, respectively, in subsidiary banks, which are restricted as to withdrawal under banking regulations.

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

	31 December 2009	31 December 2008
Cash on hand	4,495	4,949
External credit rating of BB and above	231,486	301,849
External credit rating of B	3,899	16,308
No external credit rating	9,879	20,727
Total cash and cash equivalents	249,759	343,833

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

OA OGAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

9 SHORT-TERM FINANCIAL ASSETS

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

	31 December 2009				31 December 2008			
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
Financial assets held for trading:	7,591	14,348	-	21,939	4,249	7,957	-	12,206
Bonds	5,598	50	-	5,648	2,315	-	-	2,315
Equity securities	1,993	-	-	1,993	1,934	83	-	2,017
Promissory notes	-	14,298	-	14,298	-	7,874	-	7,874
Available-for-sale financial assets:	11,339	10,069	8,790	30,198	2,644	3,836	4,762	11,242
Bonds (net of impairment provision of RR 149 and RR nil as of 31 December 2009 and 2008, respectively)	11,339	4,250	-	15,589	2,644	1,656	-	4,300
Promissory notes (net of impairment provision of RR 47 and RR 779 as of 31 December 2009 and 2008, respectively)	-	5,819	8,790	14,609	-	2,180	4,762	6,942
Total short-term financial assets	18,930	24,417	8,790	52,137	6,893	11,793	4,762	23,448

Financial assets held for trading owned by the Group's banking subsidiaries amounted to RR 19,182 and RR 8,989 as of 31 December 2009 and 2008, respectively.

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

	31 December	
	2009	2008
External credit rating of BB and above	33,790	12,543
External credit rating of B	3,368	1,947
No external credit rating	12,986	6,941
Total short-term financial assets	50,144	21,431

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

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2009	2008
Financial assets		
Trade receivables (net of impairment provision of RR 126,977 and RR 96,599 as of 31 December 2009 and 2008, respectively)	393,554	393,996
Other receivables (net of impairment provision of RR 28,874 and RR 16,426 as of 31 December 2009 and 2008, respectively)	185,595	113,300
	579,149	507,296
Non-financial assets		
Advances and prepayments (net of impairment provision of RR 1,021 and RR 1,150 as of 31 December 2009 and 2008, respectively)	263,765	168,638
Total accounts receivable and prepayments	842,914	675,934

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

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As of 31 December 2009 and 2008 RR 268,393 and RR 318,757 of trade receivables, net of impairment provision, respectively, are denominated in foreign currencies, mainly US dollar and Euro.

As of 31 December 2009 and 2008 other receivables include RR 42,640 and RR 33,680, respectively, relating to the operations of Group's banking subsidiaries. This balance mainly represents deposits with other banks and loans issued to customers at commercial rates based on credit risk and maturities.

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

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

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

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

Approximately 1% and 2% of accounts receivable settled during the years ended 31 December 2009 and 2008, respectively, were settled via mutual settlements or other non-cash settlements.

As of 31 December 2009 and 2008, trade receivables of RR 26,004 and RR 23,260, respectively, were past due but not impaired. These mainly relate to a number of customers for whom there is no recent history of material default. The ageing analysis of these trade receivables is as follows:

Ageing from the due date	31 December	
	2009	2008
Up to 6 months	14,326	17,807
From 6 to 12 months	6,645	1,952
From 1 to 3 years	3,196	855
More than 3 years	1,837	2,646
	<u>26,004</u>	<u>23,260</u>

As of 31 December 2009 and 2008, trade receivables of RR 132,602 and RR 108,756, respectively, were impaired and provided for. The amount of the provision was RR 126,977 and RR 96,599 as of 31 December 2009 and 2008, respectively. The individually impaired receivables mainly relate to gas sales to certain Russian regions and FSU countries, which are in difficult economic situations. In the management's view a portion of the receivables will be recovered. The ageing analysis of these receivables is as follows:

Ageing from the due date	Gross book value		Provision		Net book value	
	31 December		31 December		31 December	
	2009	2008	2009	2008	2009	2008
Up to 6 months	15,129	11,583	(12,546)	(8,302)	2,583	3,281
From 6 to 12 months	19,107	11,146	(17,724)	(10,544)	1,383	602
From 1 to 3 years	38,893	26,652	(38,402)	(25,969)	491	683
More than 3 years	59,473	59,375	(58,305)	(51,784)	1,168	7,591
	<u>132,602</u>	<u>108,756</u>	<u>(126,977)</u>	<u>(96,599)</u>	<u>5,625</u>	<u>12,157</u>

As of 31 December 2009 and 2008, trade receivables of RR 361,925 and RR 358,579, respectively, were neither past due nor impaired. Management's experience indicates customer payment patterns vary by geography. The credit quality of these assets can be analysed as follows:

	31 December	
	2009	2008
Europe and other countries gas, crude oil, gas condensate and refined products debtors	182,501	212,625
FSU gas, crude oil, gas condensate and refined products debtors	69,664	80,526
Domestic gas, crude oil, gas condensate and refined products debtors	40,305	27,349
Electric and heat energy sales debtors	13,807	3,733
Transportation services debtors	5,488	3,653
Other trade debtors	<u>50,160</u>	<u>30,693</u>
Total trade receivables neither past due, nor impaired	361,925	358,579

As of 31 December 2009 and 2008, trade receivables that would otherwise be past due whose terms have been renegotiated, amounted to RR 3,021 and RR 13,384, respectively.

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

	Trade receivables		Other receivables	
	Year ended 31 December		Year ended 31 December	
	2009	2008	2009	2008
Impairment provision at the beginning of the year	96,599	70,820	16,426	19,669
Impairment provision accrued*	28,303	30,880	1,130	4,390
Write-off of receivables during the year	(2,345)	(677)	(846)	(56)
Release of previously created provision*	(2,062)	(1,849)	(3,203)	(1,157)
Unwind of discounting*	(697)	(1,400)	-	-
Acquisition of subsidiaries	7,179	-	15,367	1,235
Gazprombank Group deconsolidation (see Note 4)	-	(1,175)	-	(7,655)
Impairment provision at the end of the year	126,977	96,599	28,874	16,426

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

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

11 INVENTORIES

	31 December	
	2009	2008
Gas in pipelines and storage	135,701	132,085
Materials and supplies (net of an obsolescence provision of RR 2,622 and RR 409 as of 31 December 2009 and 2008, respectively)	104,851	114,918
Goods for resale (net of an obsolescence provision of RR 918 and RR 165 as of 31 December 2009 and 2008, respectively)	12,651	16,069
Crude oil and refined products	<u>33,516</u>	<u>13,882</u>
	286,719	276,954

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

12 PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Machinery and equipment	Buildings and roads	Produc- tion licenses	Social assets	Assets under construction	Total
As of 31.12.07								
Cost	1,698,146	654,681	1,190,182	1,156,744	322,907	83,597	556,248	5,662,505
Accumulated depreciation	(826,203)	(251,910)	(550,573)	(461,745)	(53,482)	(28,115)	-	(2,172,028)
Net book value as of 31.12.07	871,943	402,771	639,609	694,999	269,425	55,482	556,248	3,490,477
Depreciation	(44,990)	(20,395)	(70,692)	(41,229)	(20,482)	(2,407)	-	(200,195)
Additions	404	275	8,953	7,869	5,838	1,615	684,990	709,944
Acquisition of subsidiaries	18,124	-	60,375	82,491	-	7	5,802	166,799
Disposal of subsidiaries	(48)	-	(25,198)	(18,703)	-	(800)	(27,742)	(72,491)
Translation differences	752	-	811	716	-	162	1,738	4,179
Transfers	84,650	59,253	155,432	139,274	-	5,090	(443,699)	-
Disposals	(20)	(1,921)	(4,044)	(1,819)	-	(3,633)	(12,589)	(24,026)
Charge of impairment provision	-	-	(22,470)	(25,954)	-	-	(5,741)	(54,165)
Net book value as of 31.12.08	930,815	439,983	742,776	837,644	254,781	55,516	759,007	4,020,522
As of 31.12.08								
Cost	1,802,481	710,643	1,348,119	1,332,316	328,745	82,248	759,007	6,363,559
Accumulated depreciation	(871,666)	(270,660)	(605,343)	(494,672)	(73,964)	(26,732)	-	(2,343,037)
Net book value as of 31.12.08	930,815	439,983	742,776	837,644	254,781	55,516	759,007	4,020,522
Depreciation	(47,962)	(26,139)	(81,698)	(48,254)	(17,988)	(2,404)	-	(224,445)
Additions	97	56	8,113	1,062	19,960	394	737,560	767,242
Acquisition of subsidiaries	-	18,886	114,589	106,292	3,911	51	140,958	384,687
Translation differences	(1,110)	(2,387)	(1,622)	(5,018)	(587)	(65)	(2,512)	(13,301)
Transfers	62,986	92,362	147,339	129,086	-	857	(432,630)	-
Disposals	(625)	(2,923)	(3,839)	(7,479)	-	(2,890)	(13,348)	(31,104)
Charge of impairment provision	-	-	(2,013)	(1,623)	-	-	(6,047)	(9,683)
Net book value as of 31.12.09	944,201	519,838	923,645	1,011,710	260,077	51,459	1,182,988	4,893,918
As of 31.12.09								
Cost	1,863,069	813,581	1,596,573	1,548,769	352,029	78,487	1,182,988	7,435,496
Accumulated depreciation	(918,868)	(293,743)	(672,928)	(537,059)	(91,952)	(27,028)	-	(2,541,578)
Net book value as of 31.12.09	944,201	519,838	923,645	1,011,710	260,077	51,459	1,182,988	4,893,918

At each balance sheet date management assesses whether there is any indication that the recoverable value has declined below the carrying value of the property, plant and equipment. As of 31 December 2009 and 2008 operating assets are shown net of provision for impairment of RR 54,387 and RR 50,750, respectively (see Note 40).

Assets under construction are presented net of a provision for impairment of RR 97,157 and RR 93,826 as of 31 December 2009 and 2008, respectively. Charges for impairment provision of assets under construction primarily relate to projects that have been indefinitely suspended.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RR 2,265 and RR 4,167 as of 31 December 2009 and 2008, respectively.

Included in additions above is capitalized interest of RR 45,516 and RR 28,001 for the years ended 31 December 2009 and 2008, respectively. Capitalization rates of 8.17% and 7.39% were used representing the weighted average borrowing cost of the relevant borrowings for the years ended 31 December 2009 and 2008, respectively.

Depreciation expenses in the consolidated statement of comprehensive income do not include depreciation, which is considered as a cost of self-constructed assets (and thus capitalized rather than expensed) in amount of RR 2,795 and RR 2,319 for the years ended 31 December 2009 and 2008, respectively. Depreciation expenses in the consolidated statement of comprehensive income include effect of change in amount of depreciation that was capitalized as a component of cost of inventories. For the year ended 31 December 2009 the effect amounted to RR 1,154 decrease in depreciation capitalized in inventories, whereas for the year ended 31 December 2008 the depreciation increased by RR 4,471.

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

13 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES

Notes	Carrying value as of 31 December		Group's share of the profit (loss)* for		
	2009	2008	2009	2008	
	Sakhalin Energy Investment Company Ltd.**	187,323	234,917	8,673	(10,325)
41	OA O NGK Slavneft and its subsidiaries	151,671	151,151	3,597	8,774
41	OA O NOVATEK	78,929	75,363	5,050	4,446
41	OA O Tomskneft VNK and its subsidiaries	69,614	69,286	4,390	(19,033)
41	OA O Beltransgaz	50,340	28,179	742	(3,322)
41	WINGAS GmbH & Co. KG	46,344	44,428	3,481	7,284
36, 41	Salym Petroleum Development N.V.*****	35,933	-	(1,358)	-
38, 41	OA O TGC-1***	-	32,309	975	(6,950)
42	Nord Stream AG	32,373	25,528	(729)	(58)
41	Gazprombank Group****	22,284	-	18,362	(37,667)
41	OA O Salavatnefteorgsyntez	19,272	20,959	(1,678)	-
41	TOO KazRosGaz	18,675	9,898	9,941	4,693
41	SGT EuRoPol GAZ S.A.	17,744	16,921	596	(1,273)
	Shtokman Development AG	14,298	2,622	102	86
	Wintershall AG	11,325	12,856	1,690	3,459
	ZAO Nortgaz	4,331	3,876	455	1,034
41	AO Latvijas Gaze	4,326	4,100	406	373
41	AO Lietuvos dujos	2,796	2,226	698	9
41,42	Blue Stream Pipeline company B.V.	1,603	1,232	331	147
36	OA O Moskovsky NPZ*****	-	15,922	153	374
	Other (net of provision for impairment of RR 2,452 and RR 3,000 as of 31 December 2009 and 2008, respectively)	25,524	20,370	6,680	31,263
		794,705	772,143	62,557	(16,686)

* Represents Group's share of the profit (loss) of the associated undertakings and jointly controlled entities for the years ended 31 December 2009 and 2008, respectively, or for the period during which a company was included in investments in associated undertakings and jointly controlled entities.

** Investments in Sakhalin Energy Investment Company Ltd. decreased mainly due to redemption of its redeemable preference shares in 2009.

*** The Group acquired controlling interest in OA O TGC-1 in December 2009 (see Note 38).

**** Gazprombank Group is accounted for as equity investment since 24 June 2008 due to deconsolidation of Gazprombank Group. The Group ceased to consolidate OA O Gazprombank and its subsidiaries from this date (see Note 4). The Group's share of Gazprombank Group's net loss from the date of the deconsolidation exceeded the investment resulting in reducing the carrying value to RR nil as of 31 December 2008.

***** Acquisition of controlling interest in Sibir Energy plc resulted in acquisition of 50% interest in Salym Petroleum Development N.V. and obtaining of control over OA O Moskovsky NPZ (see Note 36).

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

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

	Year ended 31 December	
	2009	2008
Balance at the beginning of the reporting period	772,143	670,403
Reclassification of investment in OAO Beltransgaz from available-for-sale long-term financial assets	-	16,156
Increase in share of OAO Beltransgaz	22,134	-
Share of net income (loss) of associated undertakings and jointly controlled entities (see Note 40)	62,557	(16,686)
Distribution from associated undertakings and jointly controlled entities	(22,889)	(38,434)
Effect of Gazprombank Group deconsolidation (see Note 4)	-	(4,740)
Acquisition of the controlling interest in OAO TGC-1 (see Note 38) and OAO Moscovsky NPZ (see Note 36)	(49,359)	-
Share redemption of Sakhalin Energy Investment Company Ltd.	(50,942)	-
Share of other comprehensive income of associated undertakings and jointly controlled entities	7,098	(4,972)
Translation differences	4,465	5,553
Other acquisitions and disposals	49,498	144,863
Balance at the end of the reporting period	794,705	772,143

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

	Assets	Liabilities	Revenues	Profit (loss)
31 December 2009				
Gazprombank Group*	1,742,730	1,547,835	230,412	56,534
Sakhalin Energy Investment Company Ltd.	675,299	296,811	107,554	17,347
OAO NGK Slavneft and its subsidiaries	615,441	290,969	121,412	7,215
OAO NOVATEK	193,639	60,199	89,954	26,043
WINGAS GmbH & Co. KG	148,268	112,416	340,916	6,450
OAO Tomskneft VNK and its subsidiaries	144,011	75,477	71,666	8,780
Nord Stream AG	120,755	55,255	2	(1,429)
OAO Salavatnefteorgsyntez	69,709	49,085	67,756	(3,241)
Blue Stream Pipeline company B.V.	69,520	63,245	7,938	1,322
SGT EuRoPol GAZ S.A.	55,061	18,096	14,662	1,202
OAO Beltransgaz**	53,173	22,411	103,555	2,455
TOO KazRosGaz	38,487	1,136	39,643	19,882
Salym Petroleum Development N.V.***	32,053	29,125	43,564	(2,322)
Shtokman Development AG	34,705	6,670	-	200
AO Lietuvos dujos	31,701	6,960	15,535	1,160
Wintershall AG	30,413	19,124	61,542	3,448
AO Latvijas Gaze	27,993	8,033	19,699	1,193
ZAO Nortgaz	10,331	1,840	4,280	888

* Revenue of Gazprombank Group is identified according to the Group's accounting policy and includes revenue of petrochemical business, media business, machinery business and other non-banking companies.

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

*** The revenues and profits of Salym Petroleum Development N.V. for the year ended 31 December 2009 are disclosed from the date of acquisition.

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

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

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

* Deconsolidation of Gazprombank Group since 24 June 2008 (see Note 4). The revenue and loss of Gazprombank Group are disclosed from the date it was accounted for as equity investment to 31 December 2008. Revenue of Gazprombank Group is identified according to the Group's accounting policy and includes revenue of petrochemical business, media business, heavy machinery business and other non-banking companies.

** In July 2008 the Group acquired 28.7% interest in OAO TGC-I for RR 39,219. The revenues and profit of OAO TGC-I for the year ended 31 December 2008 are disclosed from the date of acquisition.

*** The revenues and profit (loss) of OAO Salavatnefteorgsyntez for the year ended 31 December 2008 are not disclosed as it was acquired in late 2008.

**** In February 2008 the Group purchased 12.5% interest in OAO Beltransgaz for USD 625 million. As a result the Group increased its interest in OAO Beltransgaz up to 25%. The revenues and profit of OAO Beltransgaz for the year ended 31 December 2008 are disclosed from the date of acquisition of additional shares.

***** In the first half of 2008 the Group contributed additional RR 21,686 into the charter capital of Nord Stream AG. The Group's interest did not change as a result of this transaction.

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

	31 December	
	2009	2008
OAO NOVATEK	117,538	33,130
OAO Salavatnefteorgsyntez	19,748	19,728
AO Lietuvos dujos	4,539	2,700
AO Latvijas Gaze	3,382	3,568

Principal associated undertakings and jointly controlled entities

Entities	Country	Nature of operations	% of ordinary shares held as of 31 December*	
			2009	2008
ZAO Achimgaz	Russia	Exploration and production of gas	50	50
OAO Beltransgaz	Belarus	Transportation and gas supply	38	25
Bosphorus Gaz Corporation A.S.	Turkey	Gas distribution	51	40
WINGAS GmbH & Co. KG	Germany	Transportation and gas distribution	50	50
Wintershall AG	Germany	Production of oil and gas distribution	49	49
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	Germany	Gas distribution	50	50
Gaz Project Development Central Asia AG	Switzerland	Gas distribution	50	50
OAO Gazprombank	Russia	Banking	44	45

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009

(In millions of Russian Roubles)

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

Entities	Country	Nature of operations	% of ordinary shares held as of 31 December*	
			2009	2008
AO Gazum	Finland	Gas distribution	25	25
Blue Stream Pipeline company B.V.	Netherlands	Construction, gas transportation	50	50
SGT EuRoPol GAZ S.A.	Poland	Transportation and gas distribution	48	48
		Gas processing and sales of gas and refined products	50	50
TOO KazRosGaz	Kazakhstan			
AO Latvijas Gaze	Latvia	Transportation and gas distribution	34	34
AO Lietuvos dujos	Lithuania	Transportation and gas distribution	37	37
AO Moldovagaz	Moldova	Transportation and gas distribution	50	50
OA O NOVATEK	Russia	Production and distribution of gas	19	19
Nord Stream AG	Switzerland	Construction, gas transportation	51	51
		Exploration and sales of gas and gas condensate	51	51
ZAO Nortgaz	Russia			
AO Overgaz Inc.	Bulgaria	Gas distribution	50	50
ZAO Panrusgaz	Hungary	Gas distribution	40	40
AO Prometheus Gas	Greece	Foreign trade activity, construction	50	50
RosUkrEnergo AG	Switzerland	Gas distribution	50	50
		Processing and distribution of refined products	50	50
OA O Salavatnefteorgsyntez	Russia			
Salym Petroleum Development N.V.	Netherlands	Oil production	50	-
Sakhalin Energy Investment Company Ltd.	Bermuda Islands	Oil production, production of LNG	50	50
		Production of oil, sales of oil and refined products	50	50
OA O NGK Slavneft	Russia			
OA O Tomskneft VNK	Russia	Oil production	50	50
AO Turusgaz	Turkey	Gas distribution	45	45
Centrex Beteiligungs GmbH	Austria	Gas distribution	38	38
Shtokman Development AG	Switzerland	Exploration and production of gas	51	51

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

14 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2009	2008
Long-term accounts receivable and prepayments (net of impairment provision of RR 24,915 and RR 17,303 as of 31 December 2009 and 2008, respectively)	193,319	150,502
Advances for assets under construction (net of impairment provision of RR 7 and RR 6 of 31 December 2009 and 2008, respectively)	219,990	193,303
	413,309	343,805

As of 31 December 2009 and 2008 long-term accounts receivable included RR 62,967 and RR 33,163, relating to the operations of Group's banking subsidiaries, respectively. This balance mainly represents deposits with other banks and loans issued to customers at commercial rates based on credit risk and maturities.

As of 31 December 2009 and 2008, long-term accounts receivable and prepayments with carrying value RR 193,319 and RR 150,502 have the estimated fair value RR 185,649 and RR 146,663, respectively.

Long-term accounts receivable and prepayments include prepayments in amount of RR 3,254 and RR 3,136 as of 31 December 2009 and 2008 respectively.

Long-term accounts receivable of RR 101,092 and RR 71,029 as of 31 December 2009 and 2008, respectively, were impaired and provided for. These receivables as of 31 December 2009 and 2008 mainly related to banking subsidiaries operations. The amount of the provision was RR 24,915 and RR 17,303 as of 31 December 2009 and 2008, respectively.

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

14 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As of 31 December 2009 and 2008, long-term accounts receivable of RR 13 and RR 3, respectively, were past due but not impaired.

As of 31 December 2009 and 2008, long-term accounts receivable of RR 117,129 and RR 96,773, respectively, were neither past due, nor impaired. These assets can be analysed as follows:

	31 December	
	2009	2008
Accounts receivable of Group's banking subsidiaries	121	151
Long-term loans	77,000	80,579
Long-term trade receivables	5,440	10,097
Other long-term receivables	<u>34,568</u>	<u>5,946</u>
Total long-term accounts receivable neither past due, nor impaired	117,129	96,773

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

As of 31 December 2009 and 2008, trade receivables that would otherwise be past due whose terms have been renegotiated, amounted to RR 1,737 and RR 7,548, respectively.

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

	Year ended 31 December	
	2009	2008
Impairment provision at the beginning of the year	17,303	17,507
Impairment provision accrued*	6,512	6,361
Release of previously created provision*	(2,981)	-
Acquisition of subsidiaries	4,081	2,181
Gazprombank Group deconsolidation (see Note 4)	-	(8,746)
Impairment provision at the end of the year	24,915	17,303

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

15 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

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

	31 December				2008			
	2009				2008			
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
Equity securities	49,047	25,709	2,555	77,311	14,567	8,133	5,717	28,417
Debt instruments	12,896	16,116	335	29,347	5,945	13,531	293	19,769
	61,943	41,825	2,890	106,658	20,512	21,664	6,010	48,186

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

Available-for-sale long-term financial assets owned by the Group's banking subsidiaries amounted to RR 25,809 and RR 14,881 as of 31 December 2009 and 2008, respectively.

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

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

	Year ended 31 December	
	2009	2008
Movements in long-term available-for-sale assets		
Balance at the beginning of the year	48,186	256,210
Increase (decrease) in fair value recognized in equity	32,088	(77,952)
Purchased long-term available-for-sale financial assets	34,621	5,627
Consolidation of OAO WGC-2 and OAO WGC-6 (see Note 33)	-	(89,577)
Increase of investments due to consolidation of subsidiaries	5,769	-
Gazprombank Group deconsolidation (see Note 4)	-	(20,437)
Reclassification of investment in OAO Beltransgaz (see Note 13)	-	(16,156)
Disposal of long-term available-for-sale financial assets	(13,346)	(997)
Impairment of long-term available-for-sale financial assets	(660)	(8,532)
Balance at the end of the year	106,658	48,186

The maximum exposure to credit risk at the reporting date is the fair value of the debt securities classified as available-for-sale. The impairment of available-for-sale assets has been performed using the quoted market prices.

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

16 OTHER NON-CURRENT ASSETS

Included within other non-current assets is VAT recoverable related to assets under construction totalling RR 82,282 and RR 49,560 as of 31 December 2009 and 2008, respectively.

Other non-current assets include net pension assets in the amount of RR 243,982 as of 31 December 2009 and 2008 (see Note 23).

17 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December	
	2009	2008
Financial liabilities		
Trade payables	215,583	210,858
Accounts payable for acquisition of property, plant and equipment	103,119	111,483
Liabilities of Group's banking subsidiaries	30,006	24,344
Other payables	<u>121,548</u>	<u>94,819</u>
	470,256	441,504
Non-financial liabilities		
Advances received	30,514	24,025
Accruals and deferred income	<u>1,305</u>	<u>1,228</u>
	<u>31,819</u>	<u>25,253</u>
	502,075	466,757

Liabilities of Group's banking subsidiaries represent mainly amounts due to the bank's customers with terms at commercial rates ranging from 0.03% to 11.4% per annum and from 0.01% to 8.5% per annum as of 31 December 2009 and 2008, respectively.

For the years ended 31 December 2009 and 2008 approximately 4% and 5% respectively of the Group's settlements of accounts payable and accrued charges were made by non-cash settlements.

Trade payables of RR 48,906 and RR 16,364 were denominated in foreign currency, mainly the US dollar and Euro, as of 31 December 2009 and 2008, respectively. Book values of accounts payable approximate their fair value.

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

18 OTHER TAXES PAYABLE

	31 December	
	2009	2008
VAT	28,239	20,134
Natural resources production tax	15,293	10,593
Property tax	8,183	7,395
Excise tax	5,593	3,131
Tax penalties and interest	1,536	151
Other taxes	<u>12,253</u>	<u>9,342</u>
	71,097	50,746
Less: long-term portion of restructured tax liabilities	<u>(40)</u>	<u>(124)</u>
	71,057	50,622

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

	31 December	
	2009	2008
Short-term borrowings:		
RR denominated borrowings	119,178	90,770
Foreign currency denominated borrowings	<u>71,998</u>	<u>102,851</u>
	191,176	193,621
Current portion of long-term borrowings (see Note 20)	<u>233,679</u>	<u>239,019</u>
	424,855	432,640

Short-term RR denominated borrowings had interest rates ranging from 9.6% to 20.2% and from 9.6% to 18.0% for the years ended 31 December 2009 and 2008, respectively. Short-term foreign currency denominated borrowings had interest rates ranging from 5.5% to 12% and from 3.2% to 8.5% for the years ended 31 December 2009 and 2008, respectively.

As of 31 December 2009 and 2008, respectively, short-term borrowings include RR 90,319 and RR 59,484 of short-term borrowings of bank subsidiaries.

The Group's short-term promissory notes payable had average interest rates ranging from 4.03% to 8.47% and from 0% to 13.1% for the years ended 31 December 2009 and 2008, respectively.

Fair values approximate the carrying value of these liabilities.

20 LONG-TERM BORROWINGS AND PROMISSORY NOTES

	Currency	Final Maturity	31 December	
			2009	2008
Long-term borrowings payable to:				
OA O Sberbank Rossii	US dollar	2013	70,564	-
Loan participation notes issued in April 2009 ¹	US dollar	2019	69,238	-
Loan participation notes issued in October 2007 ¹	Euro	2018	55,100	52,628
The Royal Bank of Scotland (ABN AMRO Bank NV)	US dollar	2013	54,625	53,065
Loan participation notes issued in June 2007 ¹	GBP	2013	48,589	47,201
Loan participation notes issued in May 2005 ¹	Euro	2015	44,875	42,861
Loan participation notes issued in September 2003 ¹	Euro	2010	44,278	42,291
Loan participation notes issued in December 2005 ¹	Euro	2012	43,509	41,557
Loan participation notes issued in November 2006 ¹	US dollar	2016	41,104	39,930

OA OGAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009

(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	Currency	Final Maturity	31 December 2009	2008
Loan participation notes issued in March 2007 ¹	US dollar	2022	40,128	38,982
White Nights Finance B.V.	US dollar	2014	39,441	-
Loan participation notes issued in July 2009 ¹	US dollar	2014	39,094	-
Loan participation notes issued in August 2007 ¹	US dollar	2037	38,838	37,729
Loan participation notes issued in July 2009 ¹	Euro	2015	38,144	-
Loan participation notes issued in April 2004 ¹	US dollar	2034	36,841	35,789
Loan participation notes issued in October 2006 ¹	Euro	2014	35,289	33,706
Loan participation notes issued in April 2008 ¹	US dollar	2018	33,871	32,903
Loan participation notes issued in June 2007 ¹	Euro	2014	30,649	29,273
WestLB AG ²	US dollar	2013	30,446	29,760
Structured export notes issued in July 2004 ³	US dollar	2020	27,118	30,451
OA O Sberbank Rossii	US dollar	2010	25,937	-
The Royal Bank of Scotland (ABN AMRO Bank NV) ²	US dollar	2012	24,550	44,245
GK Vnesheconombank	US dollar	2011	22,751	-
Loan participation notes issued in November 2006 ¹	Euro	2017	22,564	21,552
Loan participation notes issued in March 2007 ¹	Euro	2017	21,888	20,906
OA O Russian Commercial Bank	US dollar	2012	18,872	-
Russian bonds issued in April 2009 ⁷	Rouble	2019	18,856	-
Calyon Credit Agricole CIB ²	US dollar	2010	18,156	41,183
Deutsche Bank AG	US dollar	2014	16,144	25,553
Credit Suisse International	US dollar	2017	15,867	15,414
Loan participation notes issued in July 2008 ¹	US dollar	2013	15,551	15,107
Loan participation notes issued in April 2009 ¹	CHF	2011	15,472	-
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2012	15,184	-
J.P. Morgan Chase bank	US dollar	2012	12,757	-
Loan participation notes issued in April 2008 ¹	US dollar	2013	12,295	11,944
OA O VTB Bank	US dollar	2012	12,226	-
Credit Suisse International	Euro	2010	10,860	10,418
Russian bonds issued in June 2009	Rouble	2012	10,007	-
Commerzbank AG (Dresdner Bank AG) ²	US dollar	2010	9,474	18,558
The Royal Bank of Scotland (ABN AMRO Bank NV) ²	US dollar	2010	8,152	18,535
Loan participation notes issued in November 2007 ¹	JPY	2012	7,956	7,729
OA O Gazprombank	Rouble	2012	7,500	7,508
OOO Aragon ⁴	Euro	2010	7,343	11,397
Deutsche Bank AG	US dollar	2014	6,058	-
Deutsche Bank AG	US dollar	2011	5,770	8,455
The Royal Bank of Scotland (ABN AMRO Bank NV) ²	US dollar	2013	5,479	5,068
Loan participation notes issued in November 2007 ¹	JPY	2010	5,302	5,151
Russian bonds issued in February 2005	Rouble	2010	5,159	5,158
Russian bonds issued in February 2007	Rouble	2014	5,133	5,132
Russian bonds issued in November 2006	Rouble	2011	5,060	5,059
Russian bonds issued in December 2009	Rouble	2014	5,038	-
Russian bonds issued in June 2009	Rouble	2014	5,004	-
Russian bonds issued in July 2007 ⁵	Rouble	2010	5,001	5,192
Russian bonds issued in October 2008 ⁸	Rouble	2012	5,000	-

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	Currency	Final Maturity	31 December 2009	2008
Russian bonds issued in March 2006 ⁶	Rouble	2016	4,909	4,731
Wintershall Holding GmbH (Wintershall Holding AG) ⁴	Euro	2010	4,906	4,686
Russian bonds issued in September 2006 ⁶	Rouble	2011	4,799	4,908
Gazstream S.A.	US dollar	2012	3,525	4,565
Golden Gates B.V. (OAO Bank of Moscow)	Rouble	2010	3,227	7,529
J.P. Morgan Chase bank	US dollar	2011	3,034	4,429
Russian bonds issued in April 2007 ⁵	Rouble	2012	2,916	2,915
Credit Suisse International	JPY	2009	-	58,654
Citigroup Global Markets Deutschland AG and Co. KGaA (Salomon Brothers AG)	US dollar	2009	-	20,975
Credit Suisse International	Euro	2009	-	16,680
Salomon Brothers AG	US dollar	2009	-	15,436
Credit Suisse International	US dollar	2009	-	14,712
Commerzbank AG ²	US dollar	2009	-	12,358
Credit Suisse International	Euro	2009	-	8,466
BNP Paribas SA ²	US dollar	2009	-	5,946
Credit Suisse International	US dollar	2009	-	5,894
Russian bonds issued in August 2005	Rouble	2009	-	5,100
Russian bonds issued in November 2006	Rouble	2009	-	5,058
European bank for reconstruction and development	Rouble	2009	-	3,878
European bank for reconstruction and development	Rouble	2009	-	2,792
Golden Gates B.V. (OAO Bank of Moscow)	Rouble	2009	-	2,533
The Royal Bank of Scotland (ABN AMRO Bank N.V.)	US dollar	2009	-	2,453
Other long-term borrowings	Various	Various	120,713	50,161
Total long-term borrowings			1,418,136	1,162,249
Less: current portion of long-term borrowings			(233,679)	(239,019)
			1,184,457	923,230

¹ Issuer of these bonds is Gaz Capital S.A.

² Loans received from syndicate of banks, named lender is the bank-agent.

³ Issuer of these notes is Gazprom International S.A.

⁴ Loans were obtained for development of Yuzhno-Russkoye oil and gas field.

⁵ Issuers of these notes are OAO WGC-2 and OAO WGC-6.

⁶ Issuer of these bonds is OAO Mosenergo.

⁷ Issuer of these bonds is OAO Gazpromneft.

⁸ Issuer of these bonds is OAO TGC-I.

	31 December	
	2009	2008
RR denominated borrowings (including current portion of RR 15,778 and RR 20,487 as of 31 December 2009 and 2008, respectively)	154,887	95,035
Foreign currency denominated borrowings (including current portion of RR 217,901 and RR 218,532 as of 31 December 2009 and 2008, respectively)	1,263,249	1,067,214
	1,418,136	1,162,249
	31 December	
	2009	2008
Due for repayment:		
Between one and two years	162,848	181,615
Between two and five years	527,212	267,294
After five years	494,397	474,321
	1,184,457	923,230

GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

Long-term borrowings include fixed rate loans with a carrying value of RR 1,149,288 and RR 914,937 and fair value of RR 1,199,339 and RR 749,630 as of 31 December 2009 and 2008, respectively. All other long-term borrowings have variable interest rates generally linked to LIBOR, and the difference between carrying value of these liabilities and their fair value is not significant.

As of 31 December 2009 and 31 December 2008 long-term borrowings include RR 57,365 and RR 18,442 relating to the operations of Group's banking subsidiaries, respectively.

In 2009 and 2008 the Group did not have material formal hedging arrangements to mitigate its foreign exchange risk or interest rate risk.

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

	31 December	
	2009	2008
Fixed rate RR denominated long-term borrowings	11.74%	7.30%
Fixed rate foreign currency denominated long-term borrowings	7.47%	6.59%
Variable rate foreign currency denominated long-term borrowings	2.10%	4.64%

As of 31 December 2009 and 2008 long-term borrowings of RR 27,118 and RR 30,451, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Western Europe.

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

The long-term promissory notes payable had average interest rates ranging from 4.03% to 8.47% and from 0% to 11.4% for the years ended 31 December 2009 and 2008, respectively.

The Group's long-term promissory notes payable have defined maturity dates from a year to five years.

21 PROFIT TAX

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

Notes	Year ended 31 December	
	2009	2008
Profit before profit tax	<u>979,435</u>	<u>1,031,632</u>
Theoretical tax charge calculated at applicable tax rates	(195,887)	(247,592)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses including:	(33,572)	(67,079)
Non-deductible expenses from call option fair value change	-	(12,177)
39 Non-taxable income from swap of assets transaction	21,094	-
Non-taxable profits/non-deductible losses of associated undertakings and jointly controlled entities	12,511	(4,005)
35 Non-taxable income from purchase of non-controlling interest in OAO Gasprom Neft	2,773	-
Other non-taxable income	7,439	6,194
Effect of reduction in tax rate to 20% enacted in 2008 with effect from 1 January 2009	-	52,230
Profit tax expense	(185,642)	(260,252)

Profit tax expense in the consolidated statement of comprehensive income is stated net of RR nil and RR 424 of tax attributable to gains arising on treasury shares transactions for the years ended 31 December 2009 and 2008, respectively.

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

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

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

21 PROFIT TAX (continued)

	31 December 2009	Differences recognition and reversals	31 December 2008	Effect from tax rate change	Differences recognition and reversals at 24% rate	31 December 2007
Tax effects of taxable temporary differences:						
Property, plant and equipment	(303,565)	(54,859)	(248,706)	49,843	(31,584)	(266,965)
Financial assets	(17,704)	1,628	(19,332)	2,939	18,889	(41,160)
Inventories	(3,368)	(1,547)	(1,821)	364	1,816	(4,001)
	<u>(324,637)</u>	<u>(54,778)</u>	<u>(269,859)</u>	<u>53,146</u>	<u>(10,879)</u>	<u>(312,126)</u>
Tax effects of deductible temporary differences:						
Tax losses carry forward	2,239	906	1,333	(267)	623	977
Other deductible temporary differences	<u>1,935</u>	<u>(1,312)</u>	<u>3,247</u>	<u>(649)</u>	<u>1,100</u>	<u>2,796</u>
Total net deferred tax liabilities	<u>(320,463)</u>	<u>(55,184)</u>	<u>(265,279)</u>	<u>52,230</u>	<u>(9,156)</u>	<u>(308,353)</u>

Taxable temporary differences attributable to property, plant and equipment recognized in the year ended 31 December 2009 include the effect of the acquisition of the controlling interest in Sibir Energy plc (see Note 36) and Naftna Industrija Srbije (see Note 34) in the amount of RR 18,652, OOO SeverEnergiya (see Note 37) in the amount of RR 20,456 and OAO TGC-1 (see Note 38) in the amount of RR 12,776.

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

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 467,160 and RR 324,581 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 believes that they will not reverse in the foreseeable future.

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

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

In accordance with the tax legislation of the Russian Federation tax losses and current tax assets of a company of the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is separately determined for main activities, income from operations with securities and service activities. Tax losses arising from one type of activity can not be offset with taxable profit of other types of activity. Also, a deferred tax asset of one company (type of activity) of the Group can not be offset against a deferred tax liability of another company (type of activity). As of 31 December 2009 and 2008 deferred tax assets on temporary differences in the amount of RR 24,129 and RR 20,669, respectively, have not been recorded because it is not probable that sufficient taxable profit of the Group's subsidiaries will be available to allow the benefit of that deferred tax asset to be utilised.

22 FINANCIAL INSTRUMENTS

As of 31 December 2009 the Group had outstanding commodity contracts and foreign currencies at the market price at the date of maturity. The Group expects to settle these contracts in the normal course of business. These instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions.

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

GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

22 FINANCIAL INSTRUMENTS (continued)

Fair value	31 December	
	2009	2008
Assets		
Commodity contracts	30,941	46,947
Interest swap contracts	975	2,138
Foreign currency derivatives	733	6,156
Other derivatives	<u>2,578</u>	<u>632</u>
	35,227	55,873
Liabilities		
Commodity contracts	22,375	46,177
Interest swap contracts	47	44
Foreign currency derivatives	168	339
Other derivatives	<u>2,029</u>	<u>542</u>
	24,619	47,102

The fair values of commodity contracts, interest swap contracts, foreign currency and other derivatives are based on market quotes on measurement date (Level 1 in accordance with the valuation hierarchy). Customary valuation models are used to value power and gas futures as well as commodity swap (Level 2 in accordance with the valuation hierarchy). For index linked instruments, the purchase or sales price required in order to measure the fair value is calculated using an agreed price formula (Level 2 in accordance with the valuation hierarchy). As of 31 December 2009 and 2008 there are no derivative financial instruments valued using valuation techniques with significant non-observable inputs (Level 3). The above valuation level classifications for derivative financial instruments in use also apply to the previous year ended 31 December 2008.

	31 December 2009		
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Total
Financial instruments, assets	2,938	32,289	35,227
Financial instruments, liabilities	1,042	23,577	24,619

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

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

23 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December	
	2009	2008
Provision for environmental liabilities	84,272	50,550
Provision for pension obligations	36,651	28,128
Other	<u>22,668</u>	<u>7,129</u>
	143,591	85,807

The Group operates a defined benefit plan, concerning the majority of its employees. These benefits include pension benefits provided by the non-governmental pension fund, NPF Gazfund and certain post-retirement benefits, from the Group at their retirement date.

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

23 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Principal actuarial assumptions used:

	31 December	
	2009	2008
Discount rate (nominal)	8.7%	8.6%
Future salary and pension increases (nominal)	6.4%	6.5%
Turnover ratio p.a.	4.8%	4.2%
Employees average remaining working life (years)	15	15

The assumptions relating to life expectancy at normal pension age were 17 years for a 60 year old man and 28 years for a 55 year old woman in 2009 and 2008.

The Group expected a 10.3% return on the plan assets as of 31 December 2009 and 8.9% return as of 31 December 2008.

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

	31 December 2009		31 December 2008	
	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits
Present value of benefit obligations	(214,342)	(88,808)	(182,590)	(49,687)
Fair value of plan assets	513,763	-	257,046	-
	299,421	(88,808)	74,456	(49,687)
Unrecognised net actuarial losses (gains)	149,772	(2,852)	169,526	(1,535)
Unrecognised past service costs	-	55,009	-	23,094
Unrecognised plan assets above the limit	(205,211)	-	-	-
Net balance asset (liability)	243,982	(36,651)	243,982	(28,128)

The net pension assets of RR 243,982 related to benefits provided by the pension plan NPF Gazfund as of 31 December 2009 are included within other non-current assets of RR 466,489 in the consolidated balance sheet.

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

	Year ended 31 December	
	2009	2008
Current service cost	12,804	8,766
Interest on obligation	19,537	17,053
Expected return on plan assets	(22,921)	(29,161)
Net actuarial (gains) losses recognized for the year	(195,824)	273,178
Past service cost	1,679	1,650
Effect of asset restriction	205,211	(255,108)
Total operating expenses included in staff costs	20,486	16,378

The total amount of benefits paid for 2009 and 2008 were equal to RR 8,816 and RR 5,078, respectively.

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

	31 December 2009		31 December 2008	
	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits
Defined benefit obligation at the beginning of the reporting year	182,590	49,687	207,880	55,344
Service cost	6,878	5,926	5,979	2,787
Interest cost	15,401	4,136	13,504	3,549
Actuarial losses (gains)	14,562	(1,159)	(40,620)	(11,717)
Past service cost	-	33,045	-	-
Benefits paid	(5,089)	(3,874)	(4,153)	(1,422)
Consolidation of OAO TGC-1 (see Note 38)	-	1,047	-	-
Consolidation of OAO WGC-2 and OAO WGC-6 (see Note 33)	-	-	-	1,146
Defined benefit obligation at the end of the reporting year	214,342	88,808	182,590	49,687

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

23 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Changes in the plan assets are as follows:

	31 December 2009		31 December 2008	
	Funded benefits - provided through NPF Gazfund	Other benefits	Funded benefits - provided through NPF Gazfund	Other benefits
Fair value of plan assets at the beginning of the reporting year	257,046	-	583,221	-
Expected return	22,921	-	29,161	-
Actuarial gains (losses)	230,184	-	(358,806)	-
Contributions by employer	8,701	3,727	7,623	924
Benefits paid	(5,089)	(3,727)	(4,153)	(924)
Fair value of plan assets at the end of the reporting year	513,763	-	257,046	-

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

	31 December 2009	31 December 2008
Equities	83%	66%
Other assets	17%	34%
	100%	100%

The amount of ordinary shares of OAO Gazprom included in the fair value of plan assets comprise RR 59,010. For the year ended 31 December 2009 actual return on plan assets was a profit of RR 253,105, caused by the change of the fair value of plan assets.

Funded status of the plan:

	31 December		
	2009	2008	2007
Defined benefit obligation	(214,342)	(182,590)	(207,880)
Plan assets	<u>513,763</u>	<u>257,046</u>	<u>583,221</u>
Surplus	299,421	74,456	375,341

For 2009, 2008 and 2007, experience adjustments on plan assets amounted to RR 230,184 profit, RR 358,806 loss and RR 33,514 loss and experience adjustments on plan liabilities amounted to RR 36,185, RR 124,592 and RR 43,259 loss respectively.

24 EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2009 and 2008 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Roubles.

Dividends

In 2009, OAO Gazprom accrued and paid dividends in the nominal amount of 0.36 Roubles per share for the year ended 31 December 2008. In 2008, OAO Gazprom accrued and paid dividends in the nominal amount of 2.66 Roubles per share for the year ended 31 December 2007.

Treasury shares

As of 31 December 2009 and 2008, subsidiaries of OAO Gazprom held 724 million and 30 million of the ordinary shares of OAO Gazprom, respectively. Shares of the Group held by the subsidiaries represent 3.1% and 0.1% of OAO Gazprom shares as of 31 December 2009 and 2008, respectively. The Group management controls the voting rights of these shares.

In October 2009 the Group completed the agreement with E.ON Ruhrgas AG to swap 25% share in OAO Severneftegazprom less three ordinary shares, three preference shares without voting right of OAO Severneftegazprom and a preference share in ZAO Gazprom YRGM Development. In exchange the Group received 49% share in ZAO Gerosgaz, which led to the increase in OAO Gazprom's treasury shares by an additional 2.93% reflected at market value as of the date of the swap closure (see Note 39).

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

24 EQUITY (continued)

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Rouble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29 "Financial Reporting in Hyperinflation Economies". Also, retained earnings and other reserves include translation gains arising on the translation of the net assets of foreign subsidiaries, associated undertakings and jointly controlled entities in the amount of RR 51,045 and RR 44,545 as of 31 December 2009 and 2008, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of these assets to governmental authorities and this process may continue. Social assets with a net book value of RR 1,647 and RR 2,519 have been transferred to governmental authorities during the years ended 31 December 2009 and 2008, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with RAR. For 2009 year, the statutory profit of the parent company was RR 624,613. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

25 SALES

	Year ended 31 December	
	2009	2008
Gas sales (including excise tax and custom duties, net of VAT) to customers in:		
Russian Federation	503,121	479,387
Former Soviet Union (excluding Russian Federation)	363,400	381,902
Europe and other countries	<u>1,393,958</u>	<u>1,697,078</u>
Gross sales of gas	2,260,479	2,558,367
Excise tax	(220)	(81)
Customs duties	<u>(344,213)</u>	<u>(461,740)</u>
Net sales of gas	1,916,046	2,096,546
Sales of refined products to customers in:		
Russian Federation	297,885	378,182
Former Soviet Union (excluding Russian Federation)	35,951	44,980
Europe and other countries	<u>206,669</u>	<u>229,794</u>
Total sales of refined products	540,505	652,956
Sales of crude oil and gas condensate to customers in:		
Russian Federation	18,127	27,577
Former Soviet Union (excluding Russian Federation)	26,562	26,570
Europe and other countries	<u>131,714</u>	<u>160,808</u>
Sales of crude oil and gas condensate	176,403	214,955
Electric and heat energy sales:		
Russian Federation	191,334	131,965
Former Soviet Union (excluding Russian Federation)	3,706	2,370
Europe and other countries	<u>-</u>	<u>-</u>
Total electric and heat energy sales	195,040	134,335
Gas transportation sales:		
Russian Federation	64,597	70,080
Former Soviet Union (excluding Russian Federation)	966	605
Europe and other countries	<u>-</u>	<u>-</u>
Total gas transportation sales	65,563	70,685
Other revenues:		
Russian Federation	82,930	99,194
Former Soviet Union (excluding Russian Federation)	6,664	7,685
Europe and other countries	<u>7,820</u>	<u>9,130</u>
Total other revenues	97,414	116,009
Total sales	2,990,971	3,285,486

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009

(In millions of Russian Roubles)

25 SALES (continued)

The presentation of 2008 comparative financial information related to sales of gas, electric and heat energy has been changed to be consistent with the net presentation of trading activity result. The effect of this reclassification on 2008 sales was RR 233,474 and had no effect on operating income and cash flows.

26 OPERATING EXPENSES

	Year ended 31 December	
	2009	2008
Purchased oil and gas	606,435	528,664
Staff costs	255,977	240,607
Taxes other than on income	244,748	258,971
Transit of gas, oil and refined products	238,327	185,269
Depreciation	221,197	195,016
Repairs and maintenance	138,779	152,234
Materials	83,576	90,722
Cost of goods for resale, including refined products	54,562	71,933
Electricity and heating expenses	43,375	48,691
Research and development expenses	28,524	19,952
Social expenses	20,639	18,668
Rental expenses	19,912	15,178
Insurance expenses	16,315	14,637
Processing services	9,744	10,055
Transportation services	7,309	7,485
Other	107,507	72,355
Total operating expenses	2,096,926	1,930,437

Staff costs include RR 20,486 and RR 16,378 of expenses associated with pension obligations for the years ended 31 December 2009 and 2008, respectively (see Note 23).

Gas purchase expenses included within purchased oil and gas amounted to RR 442,440 and RR 371,070 for the years ended 31 December 2009 and 2008, respectively.

Taxes other than on income consist of:

	Year ended 31 December	
	2009	2008
Natural resources production tax	144,908	188,494
Excise tax	53,024	29,309
Property tax	36,034	27,781
Other taxes	10,782	13,387
	244,748	258,971

27 FINANCE INCOME AND EXPENSES

	Year ended 31 December	
	2009	2008
Exchange gains	338,976	118,746
Interest income	36,762	46,822
Gains on and extinguishment of restructured liabilities	61	35
Total finance income	375,799	165,603
	Year ended 31 December	
	2009	2008
Exchange losses	367,320	281,269
Interest expense	74,167	59,910
Total finance expenses	441,487	341,179

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

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

	Year ended 31 December	
	2009	2008
RAR net profit for the year per consolidated statutory accounts	649,659	552,859
Effects of IFRS adjustments:		
Gain on swap of assets transaction	2,440	-
Reclassification of revaluation of available-for-sale financial assets	(33,805)	49,411
Effect of OAO NOVATEK consolidation as an associated undertaking	(79,358)	85,214
Effect of profit tax rate change	-	52,230
Differences in depreciation	147,856	133,348
Reversal of goodwill depreciation	37,116	27,950
Gain on purchase of non-controlling interest in OAO Gazprom neft	13,865	-
Loan interest capitalized	40,614	26,465
Impairment provision for property, plant and equipment	(3,637)	(48,424)
Impairment provision for associated undertakings and jointly controlled entities	-	(31,000)
Impairment and other provisions	(17,313)	(19,010)
Accounting of finance lease	7,569	6,069
Accounting for Gazprombank group	14,727	(25,223)
Write-off of research and development expenses capitalized for RAR purposes	(8,935)	(4,317)
Fair value adjustment on commodity contracts	3,567	6,381
Gain from change in fair value of call option	-	(50,738)
Differences in losses on fixed assets disposal	7,243	6,816
Other effects	12,185	3,349
IFRS profit for the year	793,793	771,380

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

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

There were 23.5 and 23.4 billion weighted average shares outstanding for the years ended 31 December 2009 and 2008, respectively.

There are no dilutive financial instruments outstanding.

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

30 NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December	
	2009	2008
Profit before profit tax	979,435	1,031,632
Adjustments to profit before profit tax		
Depreciation	221,197	195,016
Gain on purchase of non-controlling interest in OAO Gazprom neft	(13,865)	-
Gain from swap of assets transaction	(105,470)	-
Increase in provisions	65,914	115,342
Net unrealised foreign exchange loss	28,344	162,523
Interest expense	74,167	59,910
Gains on and extinguishment of restructured liabilities	(61)	(35)
Losses on disposal of property, plant and equipment	6,477	1,858
Interest income	(36,762)	(46,822)
Gains on disposal of available-for-sale financial assets	(6,319)	(14,326)
Derivatives gain	(3,371)	(10,762)
Share of net (income) loss of associated undertakings and jointly controlled entities	(62,557)	16,686
Total effect of adjustments	167,694	479,390
Increase in long-term assets	(3,940)	(112,485)
(Increase) decrease in long-term liabilities	597	(3,246)
Loss from change in fair value of call option	-	50,738
	1,143,786	1,446,029
Changes in working capital		
Increase in accounts receivable and prepayments	(132,167)	(245,820)
Decrease (increase) in inventories	1,844	(42,047)
(Increase) decrease in other current assets	(28,473)	3,131
(Decrease) increase in accounts payable and accrued charges, excluding interest, dividends and capital construction	(20,694)	67,551
Settlements on taxes payable (other than profit tax)	102,545	80,772
(Increase) decrease in available-for-sale financial assets and financial assets held for trading	(26,326)	15,707
Total effect of working capital changes	(103,271)	(120,706)
Profit tax paid	(143,361)	(308,772)
Net cash provided by operating activities	897,154	1,016,551

Total taxes and other similar payments paid in cash for the years 2009 and 2008:

	Year ended 31 December	
	2009	2008
Customs duties	564,722	699,253
Profit tax	143,361	308,772
Natural resources production tax	139,249	196,815
VAT	103,160	76,273
Excise	49,907	22,958
Property tax	36,203	30,908
Unified social tax	31,049	29,304
Personal income tax	29,399	28,876
Other	14,557	23,290
Total taxes paid	1,111,607	1,416,449

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009

(In millions of Russian Roubles)

31 SUBSIDIARY UNDERTAKINGS
Principal subsidiaries

Subsidiary undertaking	Location	% of share capital as of 31 December*	
		2009	2008
ООО Авиапредприятие Газпром авиа (ООО Авиапредприятие Газпром авиа)	Russia	100	100
ОАО Арктическая газовая компания	Russia	100	-
ЗАО АрмРосгазпром	Armenia	80	76
Vemex s.r.o.	Czech Republic	50	33
ОАО Востокгазпром	Russia	100	100
ООО Газпром бурение (ООО Бургаз)	Russia	100	100
ООО Газпром ВНИГАЗ (ООО ВНИГАЗ)	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Газпром Global LNG Ltd.	United Kingdom	100	100
ООО Газпром добыча Астрахан	Russia	100	100
ООО Газпром добыча Краснодар (ООО Кубангазпром)	Russia	100	100
ООО Газпром добыча Красноярск	Russia	100	100
ООО Газпром добыча Надым	Russia	100	100
ООО Газпром добыча Ноябрьск	Russia	100	100
ООО Газпром добыча Оренбург	Russia	100	100
ООО Газпром добыча Уренгой	Russia	100	100
ООО Газпром добыча shelf	Russia	100	100
ООО Газпром добыча Ямбург	Russia	100	100
Газпром EP International B.V. (Газпром Netherlands B.V.)	Netherlands	100	100
ООО Газпром инвест Восток	Russia	100	100
ООО Газпром инвест Запад	Russia	100	100
ЗАО Газпром инвест Юг	Russia	100	100
ООО Газпром инвестholding	Russia	100	100
ООО Газпром комплектация	Russia	100	100
Газпром Libyen Verwaltungs GmbH	Germany	100	100
Газпром Marketing and Trading Ltd.	United Kingdom	100	100
ЗАО Газпром нефть Оренбург	Russia	100	100
Газпром Нефть Trading GmbH **	Austria	100	100
ООО Газпром нефть shelf (ООО Севморнефтегаз)	Russia	100	100
ОАО Газпром нефть	Russia	96	76
ООО Газпром переработка	Russia	100	100
ООО Газпром подземремонт Оренбург	Russia	100	100
ООО Газпром подземремонт Уренгой	Russia	100	100
ООО Газпром PKhG	Russia	100	100
Газпром Sakhalin Holding B.V.	Netherlands	100	100
ООО Гапром торгсервис (ООО Газторгпромстрой)	Russia	100	100
ООО Газпром трансгаз Волгоград	Russia	100	100
ООО Газпром трансгаз Екатеринбург	Russia	100	100
ООО Газпром трансгаз Казань	Russia	100	100
ООО Газпром трансгаз Махачкала	Russia	100	100
ООО Газпром трансгаз Москва	Russia	100	100
ООО Газпром трансгаз Нижний Новгород	Russia	100	100
ООО Газпром трансгаз Самара	Russia	100	100
ООО Газпром трансгаз Санкт-Петербург	Russia	100	100
ООО Газпром трансгаз Саратов	Russia	100	100
ООО Газпром трансгаз Ставрополь	Russia	100	100
ООО Газпром трансгаз Сургут	Russia	100	100
ООО Газпром трансгаз Томск	Russia	100	100
ООО Газпром трансгаз Уфа	Russia	100	100

GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

31 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December*	
		2009	2008
OOO Gazprom transgas Ukhta	Russia	100	100
OOO Gazprom transgas Tchaikovsky	Russia	100	100
OOO Gazprom transgas Yugorsk	Russia	100	100
OOO Gazprom transgas-Kuban	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
OOO Gazprom tsentrremont	Russia	100	100
OOO Gazprom export	Russia	100	100
OOO Gazprom energo (OOO Gazpromenergo)	Russia	100	100
OOO Gazprom energoholding (OOO Gazoenergeticheskaya Kompaniya)	Russia	100	100
OOO Gazpromneft-Vostok **	Russia	100	100
ZAO Gazpromneft-Kuzbass **	Russia	100	100
GAO Gazpromneft-Noyabrskneftegaz **	Russia	100	100
GAO Gazpromneft-Omsk **	Russia	100	100
GAO Gazpromneft-Omskiy NPZ **	Russia	100	100
ZAO Gazpromneft-Severo-Zapad **	Russia	100	100
OOO Gazpromneftfinans **	Russia	100	100
OOO Gazpromneft-Khantos**	Russia	100	100
OOO Gazpromneft-Centr **	Russia	100	100
OOO GazpromPurInvest	Russia	100	100
GAO Gazpromregiongaz	Russia	100	100
OOO Gazpromtrans	Russia	100	100
GAO Gazpromtrubinvest	Russia	100	99
OOO Gazflot	Russia	100	100
ZAO Gazenergo-prombank	Russia	73	73
OOO Georesurs	Russia	100	100
ZAO Gerosgaz	Russia	100	51
GAO Daltransgaz	Russia	73	73
OOO Zapolyarneft**	Russia	100	100
GAO Zapsibgazprom	Russia	77	77
ZMB (Schweiz) AG	Switzerland	100	100
ZAO Kaunasnaskaya power station	Lithuania	99	99
GAO Krasnoyarskgazprom	Russia	75	75
OOO Mezhtregiongaz	Russia	100	100
GAO Moscovsky NPZ **	Russia	77	39
GAO Mosenergo	Russia	53	53
GAO Neftegastehnologiya	Russia	100	-
Naftna Industrija Srbije **	Serbia	51	-
OOO NK Sibneft-Yugra **	Russia	100	99
OOO Novourenogysky GCC	Russia	100	100
GAO WGC-2	Russia	58	57
GAO WGC-6	Russia	61	60
ZAO Purgaz	Russia	51	51
GAO Regiongazholding	Russia	56	56
ZAO Rosshelf	Russia	57	57
ZAO RSh-Centr	Russia	100	100
GAO Severneftegazprom ***	Russia	50	75
OOO SeverEnergiya	Russia	51	-
Sibir Energy plc **	United Kingdom	55	-
OOO Sibmetahim	Russia	100	50
OOO Sibneft-Chukotka **	Russia	-	100
AKB Soyuz (GAO)	Russia	75	-
GAO Spetsgazavtotrans	Russia	51	51
GAO TGC-1	Russia	52	29
GAO Tomskgazprom	Russia	100	100

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

31 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December*	
		2009	2008
ZAO Urengoi Inc.	Russia	100	-
OOO Faktoring-Finance	Russia	90	90
OAo Tsentrgez	Russia	100	100
OAo Tsentrenergogaz	Russia	66	62
ZAO Yamalgazinvest	Russia	100	100

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

** Subsidiaries of OAo Gazprom neft.

*** Group's voting shares.

32 NON-CONTROLLING INTEREST

Notes	Year ended 31 December	
	2009	2008
Non-controlling interest at the beginning of the year	307,984	362,308
Non-controlling interest share of net profit of subsidiary undertakings	14,208	28,452
4 Gazprombank Group deconsolidation	-	(148,035)
33 Acquisition of the controlling interest in OAo WGC-2 and OAo WGC-6	-	61,632
35 Acquisition of non-controlling interest in OAo Gazprom neft	(152,392)	-
36 Acquisition of the controlling interest in Sibir Energy plc	55,352	-
38 Acquisition of the controlling interest in OAo TGC-1	49,102	-
37 Acquisition of the controlling interest in OOO SeverEnergiya	43,578	-
Changes in non-controlling interest as a result of other acquisitions	7,732	8,734
Dividends	(1,442)	(6,227)
Translation difference	(4,796)	1,120
Gains arising from change in fair value of available-for-sale financial assets, net of tax	105	-
Non-controlling interest at the end of the year	319,431	307,984

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

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

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

In accordance with IFRS 3 "Business Combinations", the Group recognized the acquired assets and liabilities based upon their fair values.

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

The carrying amounts before the acquisition date and recognized assets acquired and liabilities assumed of OAo WGC-2 and OAo WGC-6 as of the acquisition date are as follows:

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

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

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

The acquired entities contributed revenue of RR 41,248 and loss of RR 35,244 to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, the Group's revenue and profit for the year ended 31 December 2008 would have been RR 3,317,349 and RR 760,499, respectively.

The Group performed impairment testing of assets and liabilities of OAO WGC-2 and OAO WGC-6 as of 31 December 2008 and recorded an impairment loss of RR 44,119 for certain non-financial assets including goodwill of RR 2,607. The impairment loss was primarily due to the effects of fourth quarter 2008 revised projections indicating downward revisions of projected sales volumes and increased discount rates (see Note 40).

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

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

In accordance with IFRS 3 "Business Combinations", the Group recognized the acquired assets and liabilities assumed based upon their fair values. As of 31 December 2009 the Group has updated the initial assessment of the estimated fair values of certain assets and liabilities acquired based on further analysis.

The principal changes to the assessment of fair values relate to changes in the fair value of the refining assets, production licenses and trade receivables that are not recoverable.

ОАО ГАЗПРОМ**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009****(In millions of Russian Roubles)****34 ACQUISITION OF THE CONTROLLING INTEREST IN НАФТНА ИНДУСТРИЈА СРБИЈЕ (NIS) (continued)**

In the consolidated financial statements for the year ended 31 December 2009, the purchase price allocation is preliminary as the Group is in the process of finalizing the fair value estimates for certain assets and liabilities, primarily for property, plant and equipment, certain long-term receivables and investments. Management is required to finalize the purchase accounting within 12 months of the date of acquisition. Any revisions to the provisional values will be reflected as of the acquisition date.

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

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

The acquisition of NIS contributed sales of approximately RR 72,777 and profit of RR 1,291 to the Group for the period from the date of acquisition to 31 December 2009. If the acquisition had occurred on 1 January 2009, the Group's sales for the year ended 31 December 2009 would have been RR 2,997,587. The Group's profit for the year ended 31 December 2009 would have been RR 793,910.

35 PURCHASE OF NON-CONTROLLING INTEREST IN ОАО ГАЗПРОМ НЕФТ

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

OA OGAZPROM**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009**

(In millions of Russian Roubles)

36 ACQUISITION OF THE CONTROLLING INTEREST IN SIBIR ENERGY PLC (SIBIR)

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

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

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

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

In accordance with IFRS 3 "Business Combinations", the Group recognized the acquired assets and liabilities assumed based upon their fair values. In the consolidated financial statements for the year ended 31 December 2009, the fair value of purchase consideration and the purchase price allocation is preliminary as the Group is in the process of finalizing the fair value estimates for certain assets and liabilities, primarily for property, plant and equipment, certain long-term receivables and investments. Management is required to finalize the purchase accounting within 12 months of the date of acquisition. Any revisions to the provisional values will be reflected as of the acquisition date.

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

	Book value	Provisional fair value
Cash and cash equivalents	5,643	5,643
Accounts receivable and prepayments	16,743	17,520
Inventories	1,884	1,884
Other current assets	429	616
Current assets	24,699	25,663
Property, plant and equipment	23,799	94,147
Investments in associated undertakings and jointly controlled entities	32,946	38,444
Long-term accounts receivable and prepayments	11,852	11,852
Other non-current assets	851	1,116
Non-current assets	69,448	145,559
Total assets	94,147	171,222
Accounts payable and accrued charges	9,915	10,259
Current profit tax payable	73	73
Other taxes payable	3,156	3,156
Short-term borrowings and current portion of long-term borrowings	7,276	7,276
Current liabilities	20,420	20,764
Long-term borrowings	5,438	5,438
Deferred tax liabilities	1,671	16,718
Provisions for liabilities and charges	300	300
Other non-current liabilities	6	443
Non-current liabilities	7,415	22,899
Total liabilities	27,835	43,663
Net assets at acquisition date	66,312	127,559
Non-controlling interest		(1,577)

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009

(In millions of Russian Roubles)

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

	Book value	Provisional fair value
Provisional fair value of net assets at acquisition date		125,982
Fair value of the Group's interest		72,207
Revaluation surplus		9,911
Purchase consideration		68,506
Provisional goodwill		6,210

The acquisition of Sibir Energy plc contributed sales of approximately RR 43,640 and profit of RR 2,164 to the Group for the period from the date of acquisition to 31 December 2009. If the acquisition had occurred on 1 January 2009, the Group's sales for the year ended 31 December 2009 would have been RR 3,027,699. The Group's profit for the year ended 31 December 2009 would have been RR 797,529 respectively.

37 ACQUISITION OF THE CONTROLLING INTEREST IN OOO SEVERENERGIYA

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

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

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

In accordance with IFRS 3 "Business Combinations", the Group recognized the acquired assets and liabilities based upon their fair values.

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

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

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009

(In millions of Russian Roubles)

37 ACQUISITION OF THE CONTROLLING INTEREST IN OOO SEVERENERGIYA (continued)

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

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

The acquisition of OOO SeverEnergiya did not have a material effect on the Group's sales and profit for the period from the date of acquisition to 31 December 2009. If the acquisition had occurred on 1 January 2009, the Group's sales for the year ended 31 December 2009 would have been RR 2,990,977. The Group's profit for the year ended 31 December 2009 would have been RR 791,484 respectively.

38 ACQUISITION OF THE CONTROLLING INTEREST IN OAO TGC-I

As of 31 December 2009, the Group completed the series of transactions and obtained the controlling interest in OAO TGC-I. The Group's controlling interest of 51.8% have been accumulated through the acquisition of OOO Russian Energy Projects which owned 19.5% interest in OAO TGC-I in November 2009 and acquisition of additional 3.6% interest in OAO TGC-I in the fourth quarter 2009.

The Group accounted for 28.7% interest in OAO TGC-I owned prior to the fourth quarter 2009 as an investment in associated undertakings and jointly controlled entities that was accounted as equity investment.

In accordance with IFRS 3 "Business Combinations", the Group recognized the acquired assets and liabilities based upon their fair values. In these consolidated financial statements, management made a preliminary assessment on a provisional basis. Management is required to finalise the accounting within 12 months of the date of acquisition. Any revisions to the provisional values will be reflected as of the acquisition date.

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

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

	Book value	Provisional fair value
Cash and cash equivalents	683	683
Accounts receivable and prepayments	6,366	6,366
VAT recoverable	2,807	2,807
Inventories	2,132	2,132
Other current assets	48	48
Current assets	12,036	12,036
Property, plant and equipment	78,710	121,374
Long-term accounts receivable and prepayments	6,418	6,418
Other non-current assets	956	956
Non-current assets	86,084	128,748
Total assets	98,120	140,784
Accounts payable and accrued charges	9,568	9,568
Short-term borrowings and current portion of long-term borrowings	6,918	6,918
Other current liabilities	798	798
Current liabilities	17,284	17,284
Long-term borrowings	8,499	8,499
Deferred tax liabilities	3,852	12,384
Other non-current liabilities	773	773
Non-current liabilities	13,124	21,656
Total liabilities	30,408	38,940

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

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

	Book value	Provisional fair value
Net assets at acquisition date	67,712	101,844
Provisional fair value of net assets at acquisition date		101,844
Fair value of the Group's interest		52,742
Purchase consideration		<u>61,538</u>
Provisional goodwill		8,796

If the acquisition had occurred on 1 January 2009, the Group's sales for year ended 31 December 2009 would have been RR 3,019,344. The Group's profit for the year ended 31 December 2009 would have been RR 795,992 respectively.

39 SWAP OF ASSETS WITH E.ON RUHRGAS AG

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

40 IMPAIRMENT AND OTHER PROVISIONS

The Group assessed at 31 December 2009 and 2008 whether there were any indications that the Group assets with definite useful lives may be impaired. No such indications were identified in 2009 that would require the Group to estimate the recoverable amount of such assets.

In 2008 the Group conducted an impairment test of its property, plant and equipment, goodwill, investments in associated undertakings and jointly controlled entities and other assets when there were indicators that these assets may be impaired. The recoverable amount used in the impairment tests has been determined on the basis of the projected cash flows and the value in use of such asset or cash-generating units.

For non-financial assets, the Group conducted as of 31 December 2008 an impairment test of its cash-generating units, for which the values in use have been calculated as the present values of projected future cash flows discounted the Group's weighted average cost of capital, and adjusted, where applicable, to take into account any specific risks of business operations related to the cash-generating units. The Group used discount rates ranging from 10 to 17%. The cash flow projections cover periods commensurate with the production cycles and expected lives of the respective assets. The Group used either steady or declining growth rates to extrapolate cash flows beyond the period, for which the Group usually prepares its budget. In 2008 based on the results of this test the Group recognized an impairment loss of RR 51,031 for power generating assets, including goodwill on the acquisition of OAO WGC-2 and OAO WGC-6 (see Note 33). The impairments were primarily triggered by the increase in discount rates, projected reduction in electricity consumption and expected oil and electricity prices.

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

Included in the impairment and other provisions are provisions for short-term and long-term accounts receivable in the amount of RR 33,586 and RR 42,057 for the years, ended 31 December 2009 and 2008 respectively.

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

41 RELATED PARTIES

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

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

Government

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

As of 31 December 2009 38.373% of OAO Gazprom issued shares were directly owned by the Government. Another 11.629% were owned by Government controlled entities. The Government does not prepare financial statements for public use. Following the General Meeting of Shareholders in June 2009, the 11 seats on the Board of Directors include six State representatives, two independent directors and management representatives. Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

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

Parties under control of the Government

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

As of and for the years ended 31 December 2009 and 2008, respectively, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	As of 31 December 2009		Year ended 31 December 2009	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
Current profit tax	18,418	37,267	-	182,255
Unified social tax	407	1,626	-	29,806
VAT recoverable/payable	262,565	28,239	-	-
Customs duties	142,041	-	-	-
Other taxes	2,804	41,232	-	244,748
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	17,198	-
Electricity and heating sales	-	-	118,659	-
Other services sales	-	-	3,371	-
Accounts receivable	21,683	-	-	-
Oil transportation expenses	-	-	-	71,718
Accounts payable	-	7,996	-	-
Loans	-	145,923	-	-
Interest income/expense	-	-	-	14,715
Short-term financial assets	14,577	-	-	-
Available-for-sale long-term financial assets	47,165	-	-	-

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

41 RELATED PARTIES (continued)

	As of 31 December 2008		Year ended 31 December 2008	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
Current profit tax	30,518	6,774	-	307,094
Unified social tax	558	1,075	-	30,460
VAT recoverable/payable	199,990	20,134	-	-
Customs duties	60,841	-	-	-
Other taxes	2,565	29,537	-	258,971
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	95,799	-
Electricity and heating sales	-	-	78,151	-
Other services sales	-	-	1,960	-
Accounts receivable	9,360	-	-	-
Oil transportation expenses	-	-	-	62,975
Accounts payable	-	5,444	-	-
Loans	-	14,610	-	-
Interest income/expense	-	-	854	1,050
Short-term financial assets	1,176	-	-	-
Available-for-sale long-term financial assets	18,319	-	-	-

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

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

See consolidated statement of changes in equity for returns of social assets to governmental authorities during years ended 31 December 2009 and 2008. See Note 12 for net book values as of December 2009 and 2008 of social assets vested to the Group at privatisation.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of Group companies, amounted to approximately RR 1,382 and RR 2,056 for the years ended 31 December 2009 and 2008, respectively. Such amounts include personal income tax and unified social tax. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and a one-time payment from the Group at their retirement date. The employees of the majority of Group companies are eligible for such benefits after retirement.

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

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

41 RELATED PARTIES (continued)

Associated undertakings and jointly controlled entities

For the years ended 31 December 2009 and 2008 the Group had the following significant transactions with associated undertakings and jointly controlled entities:

	Year ended 31 December	
	2009	2008
Gas sales	Revenues	
Wintershall Erdgas Handelshaus GmbH & Co. KG (WIEH)	104,370	115,317
OAO Beltransgaz	83,306	60,509
ZAO Panrusgaz	64,068	74,878
WINGAS GmbH & Co. KG	55,472	56,092
AO Gazum	25,119	26,822
AO Moldovagaz	20,785	8,999
AO Overgaz Inc.	16,360	14,088
Wintershall Erdgas Handelshaus Zug AG (WIEE)*	13,304	25,740
OAO TGC-1**	12,981	5,492
Promgaz SPA	11,435	14,864
AO Lietuvos dujos	8,129	9,039
GWH – Gaz und Warenhandels GmbH	7,059	10,336
AO Latvijas Gaze	6,015	6,533
ZAO Gazprom YRGM Trading	5,912	5,119
RosUkrEnergo AG	5,349	230,093
ZAO Gazprom YRGM Development	2,280	-
Gas transportation sales		
OAO NOVATEK	20,020	11,262
ZAO Gazprom YRGM Trading	13,078	7,217
ZAO Gazprom YRGM Development	5,456	-
RosUkrEnergo AG	-	23,455
Gas condensate, crude oil and refined products sales		
OAO NGK Slavneft and its subsidiaries	22,841	15,137
OAO Salavatnefteorgsyntez	10,787	-
Gas refining services sales		
TOO KazRosGaz	4,140	3,735
Purchased gas	Expenses	
ZAO Gazprom YRGM Trading	38,585	23,901
TOO KazRosGaz	31,810	17,265
OAO NOVATEK	15,791	5,505
ZAO Gazprom YRGM Development	14,121	-
RosUkrEnergo AG	-	39,341
Purchased transit of gas		
OAO Beltransgaz	14,111	11,864
SGT EuRoPol GAZ S.A.	12,314	12,206
Blue Stream Pipeline Company B.V.	8,731	7,513
WINGAS GmbH & Co. KG	4,926	3,748
Purchased crude oil and refined products		
OAO NGK Slavneft and its subsidiaries	54,849	79,511
OAO Tomskneft VNK and its subsidiaries	31,628	32,958
Salym Petroleum Development N.V.	17,575	-
Processing services purchases		
OAO NGK Slavneft and its subsidiaries	6,916	5,816

* Wintershall Erdgas Handelshaus Zug AG (WIEE) is the subsidiary of Wintershall Erdgas Handelshaus GmbH & Co. KG (WIEH).

** OAO TGC-1 is consolidated from the moment of acquisition of controlling interest in December 2009 (See Note 38).

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

41 RELATED PARTIES (continued)

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

	As of 31 December 2009		As of 31 December 2008	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	12,018	-	1,783	-
RosUkrEnergo AG	10,573	-	76,514	-
OA O Salavatnefteorgsyntez	10,488	-	2,493	-
OA O Beltransgaz	9,725	-	8,664	-
ZAO Panrusgaz	8,877	-	11,341	-
ZAO Gazprom YRGM Development	5,121	-	-	-
WINGAS GmbH & Co. KG	4,791	-	13,888	-
OA O Sibur Holding and its subsidiaries	4,083	-	1,589	-
AO Gazum	4,082	-	4,322	-
AO Moldovagaz*	3,731	-	3,274	-
Wintershall Erdgas Handelshaus Zug AG (WIEE)	2,249	-	11,925	-
OA O NGK Slavneft and its subsidiaries	1,647	-	4,313	-
ZAO Gazprom YRGM Trading	1,354	-	2,196	-
OA O Gazprombank	1,026	-	1,077	-
OA O NOVATEK	530	-	209	-
SGT EuRoPol GAZ S.A.	-	-	1,295	-
Cash balances in associated undertakings				
OA O Gazprombank	93,148	-	152,726	-
Long-term accounts receivable and prepayments				
RosUkrEnergo AG	11,842	-	-	-
OA O Sibur Holding and its subsidiaries	1,406	-	3,587	-
SGT EuRoPol GAZ S.A.	-	-	3,555	-
Long-term promissory notes				
WINGAS GmbH & Co. KG	16,609	-	11,721	-
Salym Petroleum Development N.V.	8,896	-	-	-
OA O Gazprombank	2,193	-	2,536	-
Short-term accounts payable				
ZAO Gazprom YRGM Development	-	9,547	-	-
SGT EuRoPol GAZ S.A.	-	6,590	-	4,470
ZAO Gazprom YRGM Trading	-	5,546	-	4,591
OA O Sibur Holding and its subsidiaries	-	3,839	-	2,756
WINGAS GmbH & Co. KG	-	2,675	-	9,239
OA O Beltransgaz	-	2,028	-	1,351
TOO KazRosGaz	-	1,896	-	1,994
OA O NGK Slavneft and its subsidiaries	-	788	-	1,580
OA O NOVATEK	-	784	-	1,111
RosUkrEnergo AG	-	-	-	9,176
Long-term accounts payable				
OA O Sibur Holding and subsidiaries	-	100	-	3,627

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

41 RELATED PARTIES (continued)

	As of 31 December 2009		As of 31 December 2008	
	Assets	Liabilities	Assets	Liabilities
Short-term loans from associated companies				
OAO Tomskneft VNK and its subsidiaries	-	10,463	-	8,478
OAO Gazprombank	-	4,563	-	7,875
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	-	-	-	2,344
Long-term loans from associated undertaking				
OAO Gazprombank	-	9,536	-	9,513

* Net of impairment provision on accounts receivable in the amount of RR 51,802 and RR 37,125 as of 31 December 2009 and 2008, respectively.

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

42 COMMITMENTS AND CONTINGENCIES

Financial guarantees

	31 December 2009	31 December 2008
Outstanding guarantees issued on behalf of:		
Blue Stream Pipeline Company B.V.	18,317	24,092
OOO Stroygazconsulting	8,841	-
MRK Energy DMCC	8,620	6,959
EM Interfinance Limited	5,785	5,823
Devere Capital International Limited	5,672	5,691
Blackrock Capital Investments Limited	4,900	4,934
ZAO Achimgaz	4,841	4,961
OAO Group E4	3,729	3,562
Nord Stream AG	2,655	2,536
Gaztransit	972	1,294
DSL Assets International Limited	-	888
United Energy Investments Limited	-	887
Other	<u>22,636</u>	<u>25,701</u>
	86,968	87,328

In 2009 and in prior periods counterparties fulfilled their obligations. The maximum exposure to credit risk in relation to financial guarantees is RR 86,968 and RR 87,328 as of 31 December 2009 and 2008, respectively.

Included in financial guarantees are amounts denominated in USD of USD 1,569 million and USD 1,587 million as of 31 December 2009 and 31 December 2008, respectively.

In July 2005 Blue Stream Pipeline Company B.V. (BSPC) refinanced some of the existing liabilities, guaranteed by the Group, by means of repayment of the liabilities to a group of Italian and Japanese banks. For the purpose of this transaction loans in the amount of USD 1,185.3 million were received from Gazstream S.A. The Group guaranteed the above loans. As of 31 December 2009 and 31 December 2008, outstanding amounts of these loans were RR 18,317 (USD 606 million) and RR 23,052 (USD 785 million), respectively, which were guaranteed by the Group, pursuant to its obligations.

As of 31 December 2008, BSPC also borrowed RR 1,040 (USD 35 million) of credit facilities, provided by Depfa Investment Bank Ltd., which were guaranteed by the Group. As of 31 December 2009 this loan was repaid.

In 2007 the Group provided a guarantee to Wintershall Vermögens-Verwaltungsgesellschaft mbH on behalf of ZAO Achimgaz as a security of loans received and used for additional financing of the pilot implementation of the project on the development of Achimsky deposits of the Urengoy field. The Group's liability with respect to loans is limited by 50% in accordance with the ownership interest in ZAO Achimgaz. As of 31 December 2009 and 31 December 2008 the above guarantee amounted to RR 4,841 (Euro 112 million) and RR 4,961 (Euro 120 million), respectively.

42 COMMITMENTS AND CONTINGENCIES (continued)

In January 2008 the Group provided a guarantee to Europipe GmbH, supplier of large-diameter steel pipes, on behalf of Nord Stream AG related to pipe supply contract for construction of Nord Stream pipeline. As of 31 December 2009 and 31 December 2008 the above guarantee amounted to RR 2,655 (Euro 61 million) and RR 2,536 (Euro 61 million), respectively.

In April 2008 the Group provided a guarantee to Credit Suisse International and National Reserve bank (OAO) on behalf of MRK Energy DMCC related to loan received by MRK Energy DMCC. The purpose of the loan is financing of construction of gas pipeline "Kudarsky pereval – Tskhinval" (South Ossetia). As of 31 December 2009 and 31 December 2008 the above guarantee amounted to RR 8,620 and RR 6,959 respectively.

In 2006 the Group guaranteed loans issued by five financing entities (Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited). These companies were special purpose entities of Gazprombank Group, which bore risks, associated with the loans. Following the deconsolidation of Gazprombank Group and because the Group remains a guarantor, the guarantees provided by the Group are reported as guarantees to third parties. As of 31 December 2009 and 31 December 2008 the above guarantees amounted to RR 16,357 (USD 541 million) and RR 18,223 (USD 620 million), respectively.

In May 2008 the Group provided a guarantee to OAO Bank of Moscow on behalf of OAO Group E4 as a security of loans for obligations under contracts for delivering of power units. As of 31 December 2009 and 31 December 2008 the above guarantee amounted to RR 3,729 (Euro 86 million) and RR 3,562 (Euro 86 million).

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

Other guarantees of the Group included guarantees, issued by OAO Sobinbank to third parties in the amount of RR 3,140 and RR 8,267 as of 31 December 2009 and 31 December 2008, respectively.

Capital commitments

In November 2009 the Board of Directors approved a RR 802 billion investment programme for 2010. Currently the company is reviewing the investment program.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2009 no loss is expected to result from these long-term commitments.

43 OPERATING RISKS

Operating environment

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

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

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

43 OPERATING RISKS (continued)

Legal proceedings

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

Taxation

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

Management believes that its interpretation of the relevant legislation as of 31 December 2009 is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

Group changes

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

Environmental matters

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

Social commitments

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

Financial crisis and economic downturn

In the middle of 2008 the global financial crisis started to affect the Russian economy, leading to lower levels of mutual trust in investments and lending. The rise of credit, currency and price risks has led to negative economic conditions in the economy, namely greater volatility of stock market quotations, the decline in industrial output and numerous insolvencies. Management is unable to estimate reliably all trends that may influence the Group's financial position and operating activity. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

44 FINANCIAL RISK FACTORS

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

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

GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

44 FINANCIAL RISK FACTORS (continued)

Market risk

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

(a) Foreign exchange risk

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

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

Notes	Russian Rouble	US dollar	Euro	Other	Total	
As of 31 December 2009						
Financial assets						
Current						
8	Cash and cash equivalents	125,718	88,609	25,135	10,297	249,759
9	Short-term financial assets	46,981	5,156	-	-	52,137
10	Trade and other accounts receivable	298,691	191,468	70,719	18,271	579,149
Non-current						
14	Long-term accounts receivable	164,332	24,316	1,417	-	190,065
15	Available for sale long-term financial assets	80,498	24,625	1,535	-	106,658
	Total financial assets	716,220	334,174	98,806	28,568	1,177,768
Financial liabilities						
Current						
17	Accounts payable and accrued charges	325,955	94,056	24,499	25,746	470,256
19	Short-term borrowings and current portion of long-term borrowings	134,956	182,078	100,346	7,475	424,855
19	Short-term promissory notes payable	11,761	-	-	-	11,761
Non-current						
20	Long-term borrowings	139,109	668,453	301,987	74,908	1,184,457
20	Long-term promissory notes payable	4,592	-	-	-	4,592
	Total financial liabilities	616,373	944,587	426,832	108,129	2,095,921
As of 31 December 2008						
Financial assets						
Current						
8	Cash and cash equivalents	184,344	114,319	39,533	5,637	343,833
9	Short-term financial assets	23,365	-	83	-	23,448
10	Trade and other accounts receivable	185,075	207,100	83,346	31,775	507,296

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

44 FINANCIAL RISK FACTORS (continued)

Notes	Russian Rouble	US dollar	Euro	Other	Total
Non-current					
Long-term accounts					
14 receivable	136,643	10,413	310	-	147,366
Available for sale long-term					
15 financial assets	43,210	-	4,976	-	48,186
Total financial assets	572,637	331,832	128,248	37,412	1,070,129
Financial liabilities					
Current					
Accounts payable and accrued					
17 charges	308,564	85,137	26,091	21,712	441,504
Short-term borrowings and					
current portion of long-term					
19 borrowings	111,257	273,429	47,011	943	432,640
Short-term promissory notes					
19 payable	8,052	-	-	-	8,052
Non-current					
Long-term borrowings					
20	74,548	496,303	352,282	97	923,230
Long-term promissory notes					
20 payable	1,718	-	-	-	1,718
Total financial liabilities	504,139	854,869	425,384	22,752	1,807,144

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in selected foreign currencies.

As of 31 December 2009, if the Russian Rouble had weakened by 20% against the US dollar with all other variables held constant, profit before profit tax would have been lower by RR 122,083, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. As of 31 December 2008, if the Russian Rouble had weakened by 30% against the US dollar with all other variables held constant, profit before profit tax would have been lower by RR 155,194. The effect of a corresponding strengthening of the Russian Rouble against the US dollar is approximately equal and opposite.

As of 31 December 2009, if the Russian Rouble had weakened by 20% against Euro with all other variables held constant, profit before profit tax would have been lower by RR 65,605 mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. As of 31 December 2008, if the Russian Rouble had weakened by 30% against Euro with all other variables held constant, profit before profit tax would have been lower by RR 90,552. The effect of a corresponding strengthening of the Russian Rouble against Euro is approximately equal and opposite.

(b) Cash flow and fair value interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group's interest rate risk primarily arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The table below summarises the balance between long-term borrowings at fixed and at variable interest rates:

Long-term borrowings	31 December	
	2009	2008
At fixed rate	1,149,288	914,937
At variable rate	268,848	247,312
Total	1,418,136	1,162,249

44 FINANCIAL RISK FACTORS (continued)

The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether obtaining financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

During 2009 and 2008, the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2009, if interest rates on US dollar and Euro denominated borrowings at these dates had been 2.0% higher with all other variables held constant, profit before profit tax would have been lower by RR 5,377 for 2009 mainly as a result of higher interest expense on floating rate borrowings. As of 31 December 2008, if interest rates on US dollar and Euro denominated borrowings at these dates had been 2.0% higher with all other variables held constant, profit before profit tax would have been lower by RR 4,946 for 2008. The effect of a corresponding decrease in interest rate is approximately equal and opposite.

(c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in development activities and could cause a decrease in the volume of reserves available for transportation and processing through the Group's systems or facilities and ultimately impact the Group's ability to deliver under its contractual obligations.

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

The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2009, if the average gas prices related to the export market had weakened by 10% with all other variables held constant, profit before profit tax would have been lower by RR 141,292 for 2009. As of 31 December 2008, if the average gas prices related to the export market had weakened by 10% with all other variables held constant, profit before profit tax would have been lower by RR 157,999 for 2008.

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

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

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

(d) Securities price risk

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

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

As of 31 December 2008, if MICEX equity index, which affects the major part of Group's equity securities, had decreased by 60% with all other variables held constant, assuming the Group's equity instruments moved according to the historically high correlation with the index, group's profit before profit tax for the year would have been RR 30,671 lower.

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

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

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

44 FINANCIAL RISK FACTORS (continued)

Credit risk

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

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

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

Management systematically reviews ageing analysis of receivables and uses this information for calculation of impairment provision (see Note 10). Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customers default risk and country risk. The Group's customer portfolio is diversified with a limited concentration.

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

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

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

	31 December	
	2009	2008
Cash and cash equivalents	249,759	343,833
Debt securities	50,144	21,431
Long-term and short-term trade and other accounts receivable	772,468	657,798
Financial guarantees	86,968	87,328
Total maximum exposure to credit risk	1,159,339	1,110,390

Liquidity risk

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

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

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

44 FINANCIAL RISK FACTORS (continued)

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of 31 December 2009					
Short-term and long-term loans and borrowings	163,876	260,979	162,848	527,212	494,397
Trade and other payables	456,801	13,455	-	-	-
Financial guarantees	18,056	16,882	12,803	22,987	16,240
As of 31 December 2008					
Short-term and long-term loans and borrowings	245,676	186,964	181,615	267,294	474,321
Trade and other payables	428,872	12,632	-	-	-
Financial guarantees	7,553	18,035	11,069	33,434	17,237

See discussion of financial derivatives in Note 22.

The Group's borrowing facilities do not usually include financial covenants which could trigger accelerated reimbursement of financing facilities.

Capital risk management

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

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

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

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

The net debt to adjusted EBITDA ratios at 31 December 2009 and 2008 were as follows:

	31 December	
	2009	2008
Total debt	1,625,705	1,365,764
Less: cash and cash equivalents and certain restricted cash	(253,398)	(347,418)
Net debt	1,372,307	1,018,346
Adjusted EBITDA	1,089,951	1,463,805
Net debt/Adjusted EBITDA ratio	1.26	0.70

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

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2009
(In millions of Russian Roubles)

45 POST BALANCE SHEET EVENTS

Investments

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

Borrowings and loans

In February 2010 the Group signed an agreement to obtain a long-term loan from Citibank N.A. in the amount of USD 367 million due in 2021 at an interest rate of LIBOR +1.6%.

In April 2010 the Group issued bonds in the amount of RR 20,000 due in 2013 at an interest rate of 7.15%.

ОАО ГАЗПРОМ
INVESTOR RELATIONS

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www.gazprom.ru (in Russian)

www.gazprom.com (in English)

ОАО ГАЗПРОМ

IFRS Consolidated Financial Statements as of and for the year ended December 31, 2008 with a comparison against the IFRS Consolidated Financial Statements as of and for the year ended December 31, 2007

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of OAO Gazprom

We have audited the accompanying consolidated financial statements of OAO Gazprom and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated statement of income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

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

ZAO PricewaterhouseCoopers Audit

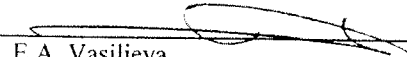
Moscow, Russian Federation
29 April 2009

OA O GAZPROM
IFRS CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2008
(In millions of Russian Roubles)

Notes

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


A.B. Miller
Chairman of the Management Committee
29 April 2009

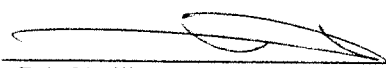

E.A. Vasilieva
Chief Accountant
29 April 2009

The accompanying notes are an integral part of these consolidated financial statements.

OA O GAZPROM
IFRS CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2008
(In millions of Russian Roubles)

Notes		Year ended 31 December	
		2008	2007
25	Sales	3,518,960	2,423,245
26	Operating expenses	(2,159,690)	(1,713,759)
35	Impairment provision and other provisions	<u>(98,964)</u>	<u>(7,708)</u>
	Operating profit	1,260,306	701,778
	Gain from sale of interest in subsidiary	-	50,853
	Gain (loss) from change in fair value of call option	(50,738)	50,738
	Deconsolidation of NPF Gazfund	-	44,692
27	Finance income	165,603	159,380
27	Finance expense	(341,179)	(132,573)
13, 35	Share of net income (loss) of associated undertakings and jointly controlled entities	(16,686)	24,234
	Gain on available-for-sale financial assets	<u>14,326</u>	<u>25,102</u>
	Profit before profit tax	1,031,632	924,204
	Current profit tax expense	(307,094)	(218,266)
	Deferred profit tax expense	<u>46,842</u>	<u>(10,953)</u>
21	Profit tax expense	(260,252)	(229,219)
	Profit for the year	771,380	694,985
	Attributable to:		
	Equity holders of OAO Gazprom	742,928	658,038
32	Minority interest	<u>28,452</u>	<u>36,947</u>
		771,380	694,985
29	Basic and diluted earnings per share for profit attributable to the equity holders of OAO Gazprom (in Roubles)	31.49	28.07


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29 April 2009


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(In millions of Russian Roubles)

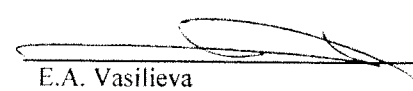
A.B. Miller
Chairman of the Management Committee
29 April 2009

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OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008
(In millions of Russian Roubles)

Notes	Year ended 31 December	
	2008	2007
	Operating activities	
30	Net cash provided by operating activities	1,016,551
	Investing activities	
12	Capital expenditures	(714,714)
	Net change in loans made	(38,084)
	Interest received	41,314
12	Interest paid and capitalised	(28,001)
	Acquisition of subsidiaries, net of cash acquired	1,514
13	Investment in associated undertakings and jointly controlled entities	(121,639)
	Decrease in cash due to NPF Gazfund deconsolidation	-
34	Decrease in cash due to Gazprombank Group deconsolidation	(47,242)
	Proceeds from sales of interest in subsidiary	5,875
	Proceeds from associated undertakings and jointly controlled entities	33,159
	Purchases of long-term available-for-sale financial assets	(20,649)
	Change in other long-term assets	(7,131)
	Net cash used for investing activities	(895,598)
	Financing activities	
20	Proceeds from long-term borrowings (including current portion)	217,248
20	Repayment of long-term borrowings (including current portion)	(336,818)
	Net proceeds (repayment of) from issue of promissory notes	1,417
19	Net proceeds from short-term borrowings	185,386
24	Dividends paid	(68,013)
	Interest paid	(55,225)
24	Purchases of treasury shares	(113,763)
24	Sales of treasury shares	107,400
8	Change in restricted cash	(6,525)
	Net cash (used for) provided by financing activities	(68,893)
	Effect of exchange rate changes on cash and cash equivalents	12,664
	Increase in cash and cash equivalents	64,724
	Cash and cash equivalents, at the beginning of reporting year	279,109
	Cash and cash equivalents, at the end of the year	343,833


A.B. Miller
Chairman of the Management Committee
29 April 2009


E.A. Vasilieva
Chief Accountant
29 April 2009

The accompanying notes are an integral part of these consolidated financial statements.

1 NATURE OF OPERATIONS

OA O Gazprom and its subsidiaries (the “Group”) operate one of the largest gas pipeline systems in the world and are responsible for substantially all gas production and high pressure gas transportation in the Russian Federation. The Group is also a major exporter of gas to European countries. The Group is engaged in oil production, refining activities and electricity generation.

The Group is involved in the following principal activities:

- Exploration and production of gas;
- Transportation of gas;
- Domestic and export sale of gas;
- Production of crude oil and gas condensate; and
- Processing of oil, gas condensate and other hydrocarbons, and sales of refined products.

Other activities primarily comprise electric and heat energy generation and sales, storage of gas and construction.

The weighted average number of full time employees during 2008 and 2007 was 456 thousand and 445 thousand, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Russian Federation continues to display certain characteristics of an emerging market, including relatively high inflation. Also as discussed in Note 35 and 38 the Russian economy has been impacted by the recent turmoil in the financial markets, economic downturn, drop in oil prices and Rouble devaluation. Management is unable to fully predict all developments which could have an impact on Russia and gas importing countries and the banking sector and consequently what effect, if any, they could have on financial position of the Group.

3 BASIS OF PRESENTATION

These consolidated financial statements are prepared in accordance with, and comply with, International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IFRS”).

The consolidated financial statements of the Group are prepared under the historical cost convention except for certain financial instruments as described in Note 5. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (see Note 5).

4 SCOPE OF CONSOLIDATION

In July 2008, the Group obtained control over OA O WGC-2 and OA O WGC-6 with ownership interests amounting to 57.3% and 60.1%, respectively (see Note 33). In these financial statements, management revised the preliminary assessment disclosed in interim condensed financial information for the nine months, ended September 30, 2008. Revisions made to the preliminary assessment applied in interim financial information were reflected as of the acquisition date.

At the general shareholders meeting of OA O Gazprombank on 24 June 2008, the shareholders elected the new Board of Directors. Five out of twelve newly elected Board members are representatives of OA O Gazprom. As a result of the change in the Board composition effective 24 June 2008 the Group lost its ability to control the financial and operating policies of the bank and its subsidiaries, including OA O Sibur Holding and its subsidiaries and Gazprom-Media Group (the “Gazprombank Group”) and ceased to consolidate OA O Gazprombank and its subsidiaries. As the Group has retained significant influence over Gazprombank Group, it is accounted under the equity method of accounting (see Note 34).

In the first quarter of 2007 the Group ceased to consolidate the non-governmental pension fund, NPF Gazfund.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group are set out below.

5.1. Group accounting

Subsidiary undertakings

The Group's subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from the activities of those entities. Subsidiary undertakings in which the Group, directly or indirectly, has an interest of more than 50% of the voting rights and is able to exercise control over the operations have been consolidated. Also subsidiary undertakings include entities in which the Group controls less than 50% of the voting share capital but where the Group controls the entity through other means. This may include a history of casting the majority of the votes at the meetings of the board of directors or equivalent governing body.

Certain entities in which the Group has an interest of more than 50% are recorded as investments in associated undertakings as the Group is unable to exercise control due to certain factors, for example restrictions stated in foundation documents.

The consolidated financial statements of the Group reflect the results of operations of any subsidiaries acquired from the date control is established. Subsidiaries are no longer consolidated from the date from which control ceases. All intercompany transactions, balances and unrealized surpluses and deficits on transactions between group companies have been eliminated. Separate disclosure is made for minority interests.

The purchase method of accounting is used to account for the acquisition of subsidiaries, including those entities and businesses that are under common control. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

Goodwill and minority interest

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date acquisition. Any excess of the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition over the cost of an acquisition is recognized in the statement of income. Goodwill is tested annually for impairment as well as when there are indications of impairment. For the purpose of impairment testing goodwill is allocated to the cash generating units that are expected to benefit from synergies from the combination.

When a business combination involves more than one transaction any adjustment to those fair values relating to previously held interests of the Group is recognised as a revaluation in equity. No such revaluation is made when the Group acquires an additional minority interest in subsidiaries.

Any premiums paid in excess of the carrying amount of the respective portion of minority interest at the date of acquisition of an additional interest in subsidiaries are recognized in goodwill.

Minority interest represents that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. In accordance with the provisions of IFRS 3 "Business Combinations", the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date, and any minority interest in the acquiree is stated at the minority's proportion of the net fair value of those items.

Associated undertakings, jointly controlled entities and joint ventures

Associated undertakings are undertakings over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint venture. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies. Associated undertakings are accounted for using the equity method.

The equity method involves recognising in the consolidated statement of income the Group's share of the associated undertakings' profit or loss for the year. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group's interest in each associated undertaking is carried in the consolidated balance sheet at an amount that reflects cost, including the goodwill at acquisition, the Group's share of profit and losses and its share of post-acquisition movements in reserves recognized in equity. Provisions are recorded for any impairment in value.

Recognition of losses under equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

Joint ventures are contractual agreements whereby two or more parties undertake economic activity, which is subject to joint control. Joint ventures related to jointly controlled entities are entities which are jointly controlled by two or more parties and investments in such entities are accounted for using the equity method.

Joint ventures involving jointly controlled assets or joint operations are accounted for using the proportionate consolidation method.

5.2. Non derivative financial assets

The Group classifies its financial assets in the following categories: (a) financial assets at fair value through profit or loss, (b) available-for-sale financial assets, and (c) loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation which determines the method for measuring financial assets at subsequent balance sheet date: amortised cost or fair value.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are expected to be realized within 12 months of the balance sheet date. There were no financial assets designated at fair value through profit or loss at inception as of 31 December 2008 and 2007.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the consolidated statement of income in the period in which they arise.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are measured at fair value at inception and subsequently. Investments in quoted equity instruments classified as available-for-sale financial assets are measured at quoted market prices as of the reporting date. Investments in equity instruments for which there are no available market quotations are accounted for fair value. The fair value of unquoted debt instruments classified as available-for-sale financial assets is determined using discounted cash flow valuation techniques based on prevailing market interest rate for similar instruments.

Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity and shown net of income tax in the consolidated statement of changes in equity. When securities classified as available-for-sale are sold, the accumulated fair value adjustments are included in the consolidated statement of income as gains (losses) on disposal of available-for-sale financial assets. Interest income on available-for-sale debt instruments calculated using the effective interest method is recognized in the consolidated statement of income.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

Impairment of financial assets

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated statement of income. The impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment was recognised. For financial assets measured at amortized cost and available-for-sale financial assets which represent debt instruments, the reversal is recognised in profit or loss. For available-for-sale financial assets which represent equity instruments, the reversal is recognised directly in equity. Impairment losses relating to assets recognised at cost cannot be reversed.

The provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 12 months overdue) are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowings at the date of origination of the receivable. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of income within operating expenses.

5.3. Derivative financial instruments

As part of trading activities, primarily by the banking subsidiaries, the Group is also party to derivative financial instruments including forward and options contracts in foreign exchange, commodities, and securities. The Group's policy is to measure these instruments at fair value, with resultant gains or losses being reported within the consolidated statement of income. The fair value of derivatives financial instruments is determined using actual market data information and valuation techniques based on prevailing market interest rate for similar instruments as appropriate. The Group has no derivatives accounted for as hedges.

The Group routinely enters into sale and purchase transactions for the purchase and sales of gas, oil, oil products and other goods. The majority of these transactions are entered to meet supply requirements to fulfill contract obligations and for own consumption and are not within the scope of IAS 39 "Financial instruments: recognition and measurement".

Derivative contracts embedded into sales-purchase contracts are separated from the host contracts and accounted for separately. Derivatives are carried at fair value with gains and losses arising from changes in the fair values of derivatives included in the consolidated income statement in the period in which they arise.

5.4. Options on purchase or sale of financial assets

Options on purchase or sale of financial assets are carried at their fair value. These options are accounted for as assets when their fair value is positive (for call options) and as liabilities when the fair value is negative (for put options). Changes in the fair value of these options instruments are included in the consolidated statement of income.

5.5. Cash and cash equivalents and restricted cash

Cash comprises cash on hand and balances with banks. Cash equivalents comprise short-term investments which are readily converted to cash and have an original maturity of three months or less. Restricted cash balances comprise balances of cash and cash equivalents which are restricted as to withdrawal under the terms of certain borrowings or under banking regulations. Restricted cash balances are excluded from cash and cash equivalents in the consolidated statement of cash flows.

5.6. Value added tax (VAT)

Output VAT related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated balance sheet on a gross basis and disclosed separately as a current asset and liability, except for VAT, presented within other non-current assets. VAT, presented within other non-current assets relates to assets under construction, which is expected to be recovered in more than 12 months after the balance sheet date. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.7. Inventories

Inventories are valued at the lower of net realisable value and cost. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses and completion costs.

5.8. Property, plant and equipment

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation and accumulated impairment.

Gas and oil exploration and production activities are accounted for in accordance with the successful efforts method. Under the successful efforts method, costs of development and successful exploratory wells are capitalised.

Costs of unsuccessful exploratory wells are expensed upon determination that the well does not justify commercial development. Other exploration costs are expensed as incurred. Exploration costs are classified as research and development expenses within operating expenses.

Major renewals and improvements are capitalised. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of the asset beyond its original capability. Gains and losses arising from the disposal of property, plant and equipment are included in the consolidated statement of income as incurred.

Property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Interest costs on borrowings are capitalised as part of the cost of assets under construction during the period of time that is required to construct and prepare the asset for its intended use.

The return to a governmental authority of state social assets (such as rest houses, housing, schools and medical facilities) retained by the Group at privatisation is recorded only upon the termination of operating responsibility for the social assets. The Group does not possess ownership rights for the assets, but records them on its balance sheet up to the return to a governmental authority because the Group controls the benefits which are expected to flow from the use of the assets and bears all associated operational and custody risks. These disposals are considered to be shareholder transactions because they represent a return of assets for the benefit of governmental authorities, as contemplated in the original privatisation arrangements. Consequently, such disposals are accounted for as a reduction directly in equity.

Depletion of acquired production licenses is calculated using the units-of-production method for each field based upon proved reserves. Oil and gas reserves for this purpose are determined in accordance with the guidelines of the Society of Petroleum Engineers and the World Petroleum Congress, and were estimated by independent reservoir engineers.

Depreciation of assets (other than acquired production licenses) is calculated using the straight-line method over their estimated remaining useful lives, as follows:

	<u>Years</u>
Pipelines	33
Wells	20-40
Machinery and equipment	10-18
Buildings	30-40
Roads	20-40
Social assets	10-40

Depreciation on wells has been calculated on cost, using the straight line method rather than, as is the more generally accepted international industry practice, on the unit-of-production method. The difference between straight line and units-of-production is not material for these consolidated financial statements. Assets under construction are not depreciated until they are placed in service.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.9. Impairment of non-current non-financial assets

At each balance sheet date, management assesses whether there is any indication that the recoverable value of the Group's assets has declined below the carrying value. When such a decline is identified, the carrying amount is reduced to the estimated recoverable amount which is the higher of fair value less costs to sell and value in use. Individual assets are grouped for impairment assessment purposes into the cash-generating units at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets.

Goodwill acquired in a business combination is assessed for the recoverability of its carrying value annually irrespective of whether there is any indication of impairment exists at the balance sheet date. Goodwill acquired through business combinations is allocated to cash-generating unit (or groups of cash-generating units) that is expected to benefit from the synergies of the acquisition. In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit (including goodwill) is compared with the recoverable amount of the respective cash-generating unit (see Note 35).

The amount of the reduction of the carrying amount of the cash-generating unit to the recoverable value is recorded in the consolidated statement of income in the period in which the reduction is identified. Impairments, except those relating to goodwill, are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. Impairment losses recognized for goodwill are not reversed in subsequent reporting periods.

5.10. Borrowings

Borrowings are recognised initially at their fair value which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are recognised at amortised cost, using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

5.11. Deferred tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on all temporary differences arising on investments in subsidiaries, associated undertakings and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

5.12. Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official exchange rates prevailing at the reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the reporting date are recognised as exchange gains or losses in the consolidated statement of income.

The balance sheets of foreign subsidiaries, associated undertakings and jointly controlled entities are translated into Roubles at the official exchange rate prevailing at the reporting date. Statements of income of foreign entities are translated at average exchange rates for the year. Exchange differences arising on the translation of the net assets of foreign subsidiaries and associated undertakings are recognised as translation differences and recorded directly in equity.

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 29.38 and 24.55 as of 31 December 2008 and 2007, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 41.44 and 35.93 as of 31 December 2008 and 2007, respectively.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

5.13. Provisions for liabilities and charges

Provisions, including provisions for pensions, environmental liabilities and asset retirement obligations, are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. As obligations are determined, they are recognised immediately based on the present value of the expected future cash outflows arising from the obligations. Initial estimates (and subsequent revisions to the estimates) of the cost of dismantling and removing the property, plant and equipment are capitalized as property, plant and equipment.

5.14. Equity

Treasury shares

When the Group companies purchase the equity share capital of OAO Gazprom, the consideration paid including any attributable transaction costs is deducted from total equity as treasury shares until they are re-sold. When such shares are subsequently sold, any consideration received net of income taxes is included in equity. Treasury shares are recorded at weighted average cost. The gains (losses) arising from treasury share transactions are recognised as a movement in the consolidated statement of changes in equity, net of associated costs including taxation.

A contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount. When the financial liability is recognised initially its fair value is reclassified from equity. The premium received for a written option is added directly to equity.

Dividends

Dividends are recognised as a liability and deducted from equity when they are recommended by the Board of Directors and approved at the General Meeting of Shareholders.

5.15. Revenue recognition

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

Sales are recognised for financial reporting purposes when products are delivered to customers and title passes and are stated net of VAT, excise taxes and other similar compulsory payments. Gas transportation sales are recognized when transportation services have been provided, as evidenced by delivery of gas in accordance with the contract.

Natural gas prices and gas transportation tariffs to the final consumers in the Russian Federation are established mainly by the Federal Tariffs Service. Export gas prices for sales to European countries are indexed to oil products prices, as stipulated in long-term contracts. Export gas prices for sales to Former Soviet Union countries are determined in accordance with formulas, similar to European countries and in some cases are fixed.

Mutual cancellation and other non-cash transactions

Certain accounts receivable arising from sales are settled either through non-cash transactions (mutual cancellations), or other non-cash settlements. The non-cash settlements are constantly decreasing. Non-cash settlements include promissory notes which are negotiable debt obligations. A portion of operations, including capital expenditures, is also transacted by mutual cancellations or other non-cash settlements.

Sales and purchases that are expected to be settled by mutual settlements, barter or other non-cash settlements are recognised based on fair value of consideration to be received or given up in non-cash settlements. The fair value is determined with reference to observable market information.

Non-cash transactions have been excluded from the consolidated cash flow statement. Investing and financing activities and the total of operating activities represent actual cash flows.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Promissory notes

Promissory notes issued by the Group are recorded initially at the fair value of the consideration received or the fair value of the note, which is determined using the prevailing market rate of interest for a similar instrument.

In subsequent periods, promissory notes are stated at amortised cost using the effective yield method. Any difference between the fair value of the consideration (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the promissory note.

5.16. Interest

Interest income and expense are recognised in the consolidated statement of income for all interest bearing financial instruments on an accrual basis using the effective yield method. Interest income includes nominal interest and accrued discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts (using the original effective rate) and interest income is thereafter recognised based on the same effective rate of interest.

5.17. Research and development

Research expenditure is recognised as an expense as incurred. Development expenditure is recognised as intangible assets (within other non-current assets) to the extent that such expenditure is expected to generate future economic benefits. Other development expenditures are recognised as an expense as incurred. However, development costs previously recognised as an expense are not recognised as an asset in a subsequent period, even if the asset recognition criteria are subsequently met.

5.18. Employee benefits

Pension and other post-retirement benefits

The Group operates a defined benefit plan, concerning the majority employees of the Group. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is charged to staff expense within operating expenses in the consolidated statement of income so as to spread the regular cost over the service lives of employees. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability. Actuarial gains and losses on assets and liabilities are recognised over the average remaining service lives of employees, if gains and losses fall outside a “corridor” of plus or minus 10% of unrecognized gains or losses (see Note 23).

Plan assets are measured at fair value and are subject to certain limitations (see Note 23). Fair value of plan assets is based on market prices. When no market price is available the fair value of plan assets is estimated by different valuation techniques, including discounted expected future cash flow using a discount rate that reflects both the risk associated with the plan assets and maturity or expected disposal date of these assets.

In the normal course of business the Group contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, are expensed when incurred and are included within staff costs in operating expenses. The cost of providing other discretionary post-retirement obligations (including constructive obligations) is charged to the consolidated statement of income so as to spread the regular cost over the service lives of employees.

Social expenses

The Group incurs employee costs related to the provision of benefits such as health and social infrastructure and services. These amounts principally represent an implicit cost of employing production workers and, accordingly, are charged to operating expenses in the consolidated statement of income.

5.19. Financial instruments

Financial instruments carried on the consolidated balance sheet include cash and cash equivalent balances, financial assets, receivables, promissory notes, accounts payable and borrowings. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each item.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting for financial guarantee contracts

Financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

Fair value disclosure

The fair value of accounts receivable for disclosure purposes is measured by discounting the value of expected cash flows at the market rate of interest for similar borrower at the reporting date.

The fair value of financial liabilities and other financial instruments (except if publicly quoted) for disclosure purposes is measured by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The fair value of publicly quoted financial instruments for disclosure purposes are measured based on current market value at the close of business on the reporting date.

5.20. Recent accounting pronouncements

In 2008 the Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2008 and which are relevant to its operations, except for IFRIC 14 “IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” which was adopted early by the Group in 2007.

(a) Standards or Interpretations effective in 2008

Effective 1 January 2008, the Group adopted IFRIC 12 “Service Concession Arrangements” (“IFRIC 12”), which is effective for annual periods beginning on or after 1 January 2008. Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services – such as roads, airports and other facilities – to private sector operators. The interpretation addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. The application of IFRIC 12 did not materially affect the Group’s consolidated financial statements.

Amendment to IAS 39 “Financial instruments: Recognition and measurement”, which is effective from 1 July 2008. The amendment allows the reclassification of certain financial assets previously classified as “held for trading” or “available for sale” to another category under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as “at fair value through profit or loss” under the fair value option are not eligible for this reclassification. Reclassification cannot be applied retrospectively before 1 July 2008. The application of this interpretation did not affect the Group’s consolidated financial statements.

All changes in the accounting policies have been made in accordance with IAS 8 “Accounting policies, changes in accounting estimates and errors” which requires retrospective application unless the new standard requires otherwise. All standards adopted by the Group require retrospective application.

(b) Standards, Amendments and Interpretations to existing Standards that are not yet effective and have not been early adopted by the Group

- IFRS 8 “Operating Segments” (“IFRS 8”), which is effective for annual periods beginning on or after 1 January 2009. The standard replaces IAS 14 “Segment reporting” (“IAS 14”). The standard requires an entity to adopt the “management approach” to reporting of performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the statement of income and balance sheet. The IFRS therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognized in the statement of income and balance sheet. The Group is currently assessing the impact of the application of IFRS 8 on its consolidated financial statements.
- Amendment to IAS 23 “Borrowing costs” (“IAS 23”), which is effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 23 removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The application of these amendments is not expected to materially affect the Group’s consolidated financial statements.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- IFRIC 13 “Customer Loyalty Programmes” (“IFRIC 13”), which is effective for annual periods beginning on or after 1 July 2008. IFRIC 13 clarifies that where goods and services are sold with a customer loyalty incentive, the arrangement is a multi-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair value. The application of IFRIC 13 is not expected to materially affect the Group’s consolidated financial statements.
- Amendment to IAS 1 “Presentation of Financial Statements” (“IAS 1”), which is effective for annual periods beginning on or after 1 January 2009. The main change in IAS 1 is the replacement of the statement of income by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group will apply the amendment from 1 January 2009.
- Amendment to IAS 32 and IAS 1 (“Puttable financial instruments and obligations arising on liquidation”), which is effective from 1 January 2009. The amendment requires classification of puttable financial instruments and instruments that impose an obligation to deliver a pro rata share of the net asset on liquidation as equity. Management does not expect the amendment to materially affect the Group’s consolidated financial statements.
- Amendment to IAS 27 “Consolidated and Separate Financial Statements” (“IAS 27”), which is effective for annual periods beginning on or after 1 July 2009. The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if these results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control over a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group will prospectively apply the amendment from 1 January 2010.
- Amendment to IFRS 3 “Business Combinations” (“IFRS 3”), which is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. Measurement of the non-controlling interests at fair value will have corresponding effect on consolidated goodwill (goodwill attributable to non-controlling interest will be recognized). The revised IFRS 3 is more detailed in providing guidance on the application of the acquisition method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred, the amount recognised for the non-controlling interest and the fair value of the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group will apply the new provisions of this standard prospectively to any business combination on or after 1 January 2010.
- Amendment to IFRS 2 “Share-based Payment” (“Vesting Conditions and Cancellations”), which is effective for annual periods beginning on or after 1 January 2009. The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The application of the amended standard is not expected to materially affect the consolidated financial statements.
- Improvements to International Financial Reporting Standards (issued in April 2009). Amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the improvements have not yet been adopted by the EU. The improvements consist of a mixture of substantive changes and clarifications in the following standards and

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; amending disclosure requirements for a measure of segment assets under IFRS 8; amending IAS 1 regarding non-current/current classification of liabilities settled by equity instruments; clarifying in IAS 7 that only expenditures that result in a recognised asset are eligible for classification as investing activities; clarifying the considerations for classification land leases and setting transition requirements for reclassification of unexpired leases in IAS 17; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination, providing additional guidance on techniques used in the absence of active market; supplementing IAS 39 to exclude from its scope certain forward contracts resulting in business combinations, to clarify the period of reclassifying gains or losses on the hedged instruments from equity to profit or loss and to provide guidance for circumstances when prepayment options are closely related to the host contract; clarification that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within the scope of IFRIC 9; and removal of the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as assets held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of assets which were previously held for rental under IAS 16 and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Management does not expect the amendments to have any material effect on the Group's consolidated financial statements.
- Amendment to IFRS 1 and IAS 27 ("Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"), which is effective for annual periods beginning on or after 1 January 2009. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognized in profit or loss rather than as a recovery of the investment. The amendment will not have a material impact on the Group's consolidated financial statements.
- Amendment to IAS 39 "Financial instruments: recognition and measurement" ("IAS 39"), which is effective for annual periods beginning on or after 1 July 2009. The amendment to IAS 39 clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The application of this amendment is not expected to materially affect the Group's consolidated financial statements.
- IFRIC 15 "Agreements for the Construction of Real Estate" ("IFRIC 15"), which is effective for annual periods beginning on or after 1 January 2009. IFRIC 15 addresses diversity in accounting for real estate sales as some entities recognise revenue in accordance with IAS 18 "Revenue" (when the risks and rewards in the real estate are transferred) and others recognise revenue as the real estate is developed in accordance with IAS 11 "Construction Contracts". The interpretation clarifies which standard (IAS 18 or IAS 11) should be applied to particular transactions and is likely to mean that IAS 18 will be applied to a wider range of transactions. Entities that have previously recognised revenue from residential real estate sales under IAS 11 will be the most significantly affected and will probably be required to apply IAS 18.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The application of this interpretation is not expected to materially affect the Group's consolidated financial statements.

- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (“IFRIC 16”) which is effective for annual periods beginning on or after 1 October 2008. This interpretation relates to the criteria required to apply hedge accounting in hedge of a net investment in a foreign operation in accordance with IAS 39. The application of this interpretation is not expected to materially affect the Group's consolidated financial statements.
- IFRIC 17 “Distributions of Non-cash assets to owners” (“IFRIC 17”) which is effective for annual periods beginning on or after 1 July 2009. The interpretation provides guidance on accounting of distribution of assets other than cash (non-cash assets) as dividends to its owners acting in their capacity as owners. It also clarifies the situations, when entity gives its owners a choice of receiving either non-cash assets or a cash alternative. The Group will apply the interpretation starting from 1 January 2010.
- IFRIC 18 “Transfers of Assets from customers” (“IFRIC 18”) which is effective for annual periods beginning on or after 1 July 2009. The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The application of this interpretation is not expected to materially affect the Group's consolidated financial statements.
- IFRS 7 “Financial Instruments: Disclosures” (“IFRS 7”) which is effective for annual periods beginning on or after 1 January 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.
- Amendments to IFRIC 9 and IAS 39 “Embedded Derivatives” which is effective for annual periods ending on or after 30 June 2009. The amendments clarify that on reclassification of a financial asset out of the ‘at fair value through profit or loss’ category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as well as disclosures. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from our estimates, and our estimates can be revised in the future, either negatively or positively, depending upon the outcome or changes in expectations based on the facts surrounding each estimate.

Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are reported below.

6.1 Consolidation of subsidiaries

Management judgment is involved in the assessment of control and the consolidation of certain affiliated entities in the Group's consolidated financial statements. Following the change in the Board composition of OA O Gazprombank, the Group determined that it ceased to have the ability to control the financial and operating policies of OA O Gazprombank and its subsidiaries including Sibur-Holding and Gazprom-Media (see Note 4). Management judgement was also required with respect to the deconsolidation of NPF Gazfund in 2007.

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

6.2 Tax legislation and uncertain tax position

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 38).

The Group's uncertain tax positions (potential tax gains and losses) are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management based on the interpretation of current tax laws. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle tax obligations at the balance sheet date.

6.3 Assumptions to determine amount of provisions

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Group's assessment of the collectability and recoverable amount of specific customer accounts, being the present value of expected cash flows. If there is deterioration in a major customer's creditworthiness or actual defaults are higher or lower than the estimates, the actual results could differ from these estimates. The charges (and releases) for impairment of accounts receivable may be material (see Note 10 and 35).

Impairment of available-for-sale financial assets

The determination under IAS 39 whether an available-for-sale financial asset is impaired requires significant judgment. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. Management applies judgment on a case by case basis to determine whether a decline in fair value of an available-for-sale financial asset below its cost is significant or prolonged. Impairment charges are given in Note 15.

Impairment of other assets

The estimation of forecast cash flows involves the application of a number of significant judgements and estimates to certain variables including volumes of production and extraction, prices on gas, oil, oil products and electrical power, operating costs, capital investment, hydrocarbon reserves estimates, and macroeconomic factors such as inflation and discount rates. In addition, judgement is applied in determining the cash generating units assessed for impairment.

The value in use of assets or cash-generating units related to oil and gas operations are based on the cash flows expected from oil and gas production volumes, which include both proved reserves as well as certain volumes of those that are expected to constitute proved and probable reserves in the future. Impairment charges are given in Notes 12 and 35.

Accounting for provisions

Accounting for impairment includes provisions against capital construction projects, financial assets, other non-current assets and inventory obsolescence. Because of the Group's operating cycle, certain significant decisions about capital construction projects are made after the end of the calendar year. Accordingly, the Group typically has larger impairment charges or releases in the fourth quarter of the fiscal year as compared to other quarters.

6.4 Site restoration and environmental costs

Site restoration costs that may be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated through the consolidated statement of income on a straight-line basis over the asset's productive life. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgment. This judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

6.5 Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage based on production and reserve estimates, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Based on the terms included in the licenses and past experience, management believes hydrocarbon production licenses will be extended past their current expiration dates at insignificant additional costs. Because of the anticipated license extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

6.6 Fair value estimation for financial instruments

The fair value of financial assets and liabilities, other than financial instruments that are traded in an active market, is determined by applying valuation techniques. Discounted cash flow analysis is used for loans and receivables as well as debt instruments that are not traded in active markets. Management uses its judgment to make assumptions based on market conditions existing at each balance sheet date (see Note 5).

6.7 Fair value estimation for acquisitions

In accordance with IFRS 3, the Group recognizes the assets and liabilities acquired in a business combination based upon their fair values. In cases where market values are available such values are utilized in the measurement of acquired assets and liabilities. When market values are not available, fair value determination includes discounted cash flow models based upon management's assumptions and estimates regarding future cash flows, or replacement costs models (see Note 33). The determination of fair value of assets acquired and liabilities assumed requires management to make judgments with respect to the valuation model applied, the amount and timing of cash flows forecasts or other assumptions such as discount rates.

6.8 Accounting for plan assets and pension liabilities

Pension plan liabilities are estimated using actuarial techniques and assumptions as disclosed in Note 23. Actual results may differ from the estimates, and the Group's estimates can be revised in the future based on changes on economic and financial conditions.

In addition, certain plan assets included in NPF Gazfund are estimated using the fair value estimation techniques. Management makes judgments with respect to the selection of valuation model applied, the amount and timing of cash flows forecasts or other assumptions such as discount rates. The recognition of plan assets is limited by the estimated present value of future benefits, available to the Group in relation to this plan. These benefits are determined using actuarial techniques and assumptions. The impact of the change in the limitation of the plan assets in accordance with IAS 19 is disclosed in Note 23. The value of plan assets and the limit are subject to revision in the future.

7 SEGMENT INFORMATION

The Group operates as a vertically integrated business with substantially all external gas sales generated by the gas distribution business. Following the practice suggested by IAS 14, "Segment Reporting" ("IAS 14") for vertically integrated businesses the following business segments are identified within the Group:

- Production of gas – exploration and production of gas;
- Transport – transportation of gas;
- Distribution – domestic and export sale of gas;
- Production of crude oil and gas condensate – exploration of oil and gas condensate, sales of crude oil and gas condensate;
- Refining – processing of oil, gas condensate and other hydrocarbons, and sales of refined products; and
- Other – other activities, including electric and heat energy generation and sales, construction and gas storage.

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS– 31 DECEMBER 2008
(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

These segments are reflected by the Group's organizational structure and the Group's internal financial reporting system.

	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
31 December 2008							
Segment assets	1,278,654	1,874,130	691,143	669,016	268,514	1,194,308	5,975,765
Associated undertakings and jointly controlled entities	81,865	71,860	73,375	450,774	51,996	42,273	772,143
Unallocated assets							724,913
Inter-segment eliminations							(304,253)
Total assets							7,168,568
Segment liabilities	130,639	169,169	239,984	114,826	83,823	191,184	929,625
Unallocated liabilities							1,630,097
Inter-segment eliminations							(304,253)
Total liabilities							2,255,469
Capital additions	224,176	248,114	34,819	79,489	50,554	76,971	714,123
Depreciation	44,890	83,382	1,309	32,823	16,621	15,991	195,016
Charge for impairment provisions and other provisions	5,452	11,498	34,156	741	3,061	54,185	109,093
Unallocated impairment provisions and other provisions							<u>6,249</u>
Total impairment provisions and other provisions							115,342
	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
31 December 2007							
Segment assets	1,096,544	1,685,608	482,247	704,395	333,051	1,222,032	5,523,877
Associated undertakings and jointly controlled entities	74,664	32,258	51,178	457,972	33,346	20,985	670,403
Unallocated assets							849,638
Inter-segment eliminations							(251,362)
Total assets							6,792,556
Segment liabilities	102,058	150,933	178,399	90,399	89,601	283,446	894,836
Unallocated liabilities							1,835,985
Inter-segment eliminations							(251,362)
Total liabilities							2,479,459
Capital additions	187,486	193,664	31,324	62,427	39,195	54,306	568,402
Depreciation	43,404	83,238	303	33,426	14,379	8,827	183,577
Charge for impairment provisions and other provisions	8,789	20,497	1,462	1,824	3,811	6,029	42,412
Unallocated impairment provisions and other provisions							<u>1,526</u>
Total impairment provisions and other provisions							43,938

Segment assets consist primarily of property, plant and equipment and current assets. Unallocated assets include VAT recoverable, cash and cash equivalents, restricted cash and other non-current assets.

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS– 31 DECEMBER 2008
(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

Segment liabilities comprise operating liabilities, excluding items such as taxes payable, and provisions for liabilities and charges.

Charges for impairment provisions and other provisions above include impairment provisions for accounts receivable, assets under construction, inventory and other non-current assets and provisions for liabilities and charges.

	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
Year ended							
31 December 2008							
Segment revenues							
Inter-segment sales	290,847	561,050	118,021	178,280	8,462	20,994	1,177,654
External sales	<u>11,678</u>	<u>70,685</u>	<u>2,254,723</u>	<u>214,955</u>	<u>652,956</u>	<u>313,963</u>	<u>3,518,960</u>
Total segment revenues	302,525	631,735	2,372,744	393,235	661,418	334,957	4,696,614
Segment expenses							
Inter-segment expenses	(6,427)	(71,352)	(853,380)	-	(196,291)	(50,204)	(1,177,654)
External expenses	<u>(254,157)</u>	<u>(413,645)</u>	<u>(660,261)</u>	<u>(290,861)</u>	<u>(316,179)</u>	<u>(317,061)</u>	<u>(2,252,164)</u>
Total segment expenses	<u>(260,584)</u>	<u>(484,997)</u>	<u>(1,513,641)</u>	<u>(290,861)</u>	<u>(512,470)</u>	<u>(367,265)</u>	<u>(3,429,818)</u>
Segment result	<u>41,941</u>	<u>146,738</u>	<u>859,103</u>	<u>102,374</u>	<u>148,948</u>	<u>(32,308)</u>	<u>1,266,796</u>
Unallocated operating expenses							<u>(6,490)</u>
Operating profit							1,260,306
Share of net income (loss) of associated undertakings and jointly controlled entities	5,503	(4,506)	42,007	(19,944)	2,567	(42,313)	(16,686)
	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
Year ended							
31 December 2007							
Segment revenues							
Inter-segment sales	245,206	493,517	64,560	95,418	6,242	17,027	921,970
External sales	<u>5,623</u>	<u>41,740</u>	<u>1,522,080</u>	<u>167,758</u>	<u>525,216</u>	<u>160,828</u>	<u>2,423,245</u>
Total segment revenues	250,829	535,257	1,586,640	263,176	531,458	177,855	3,345,215
Segment expenses							
Inter-segment expenses	(5,129)	(51,669)	(739,410)	-	(110,013)	(15,749)	(921,970)
External expenses	<u>(225,579)</u>	<u>(337,159)</u>	<u>(471,227)</u>	<u>(174,729)</u>	<u>(330,530)</u>	<u>(146,474)</u>	<u>(1,685,698)</u>
Total segment expenses	<u>(230,708)</u>	<u>(388,828)</u>	<u>(1,210,637)</u>	<u>(174,729)</u>	<u>(440,543)</u>	<u>(162,223)</u>	<u>(2,607,668)</u>
Segment result	20,121	146,429	376,003	88,447	90,915	15,632	737,547
Unallocated operating expenses							<u>(35,769)</u>
Operating profit							701,778
Share of net income of associated undertakings and jointly controlled entities	4,409	2,654	5,461	4,299	6,795	616	24,234

7 SEGMENT INFORMATION (continued)

The inter-segment sales mainly consist of:

- Production of gas - sale of gas to the Distribution and Refining segments;
- Transport - rendering transportation services to the Distribution segment;
- Distribution - sale of gas to the Transport segment for own needs and to the Other segment for electric and heat energy generation;
- Production of crude oil and gas condensate - sale of oil and gas condensate to the Refining segment for further processing; and
- Refining - sale of refined hydrocarbon products to other segments;
- Other - sales of gas storage to the Distribution segment.

Internal transfer prices, mostly for Production of gas and Transport segments, are established by the management of the Group with the objective of providing specific funding requirements of the individual subsidiaries within each segment. Prices are determined on a cost plus basis.

Included within unallocated operating expenses are corporate expenses, including provision for the impairment of certain financial assets.

Substantially all of the Group's operating assets are located in the Russian Federation. Sales by geographical regions are disclosed in Note 25.

8 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Balances included within cash and cash equivalents in the consolidated balance sheet represent cash on hand and balances with banks. Restricted cash balances include cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings. In addition, restricted cash comprises cash balances of RR 162 and RR 9,051 as of 31 December 2008 and 2007, respectively, in subsidiary banks, which are restricted as to withdrawal under banking regulations.

The table below analyses credit quality of banks at which the Group holds cash and cash equivalents by external credit ratings, published by Standard and Poor's and other credit agencies. The table below uses Standard and Poor's rating classification:

	31 December	
	2008	2007
Cash on hand	4,949	13,218
External credit rating of BB and above	301,849	206,416
External credit rating of B	16,308	46,299
No external credit rating	<u>20,727</u>	<u>13,176</u>
Total cash and cash equivalents	343,833	279,109

Sovereign credit rating of the Russian Federation published by Standard and Poor's is BBB¹.

¹ By international scale in foreign currency.

9 SHORT-TERM FINANCIAL ASSETS

Notes	31 December	
	2008	2007
Financial assets held for trading:		
39 Corporate bonds	1,206	57,203
Corporate shares	2,017	13,618
Government and municipal bonds	1,109	13,343
Promissory notes	<u>7,874</u>	<u>12,145</u>
	<u>12,206</u>	<u>96,309</u>
Available-for-sale financial assets:		
39 Bonds	4,300	1,730
Promissory notes (net of impairment provision of RR 779 and RR 3,171 as of 31 December 2008 and 2007, respectively)	<u>6,942</u>	<u>15,872</u>
	<u>11,242</u>	<u>17,602</u>
Total short-term financial assets	23,448	113,911

Financial assets held for trading owned by the Group's banking subsidiaries amounted to RR 8,989 and RR 88,933 as of 31 December 2008 and 31 December 2007, respectively. These assets primarily comprise marketable equity and debt securities intended to generate short-term profits through trading.

The assets held for trading as of 31 December 2007 mainly included financial assets of ОАО Gazprombank. The bank was deconsolidated in June 2008 (see Note 34).

Information about credit quality of short-term financial assets is presented in the table below with reference to external credit ratings of related counterparties or instruments (published by Standard and Poor's and other rating agencies). The table below uses Standard and Poor's rating classification:

	31 December	
	2008	2007
External credit rating of BB and above	12,543	65,480
External credit rating of B	1,947	7,922
No external credit rating	<u>6,941</u>	<u>26,891</u>
Total short-term financial assets	21,431	100,293

Short-term financial assets with no external credit rating are mainly represented by investments in debt securities quoted on the Russian security market and securities, which are not quoted.

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2008	2007
Financial assets		
Trade receivables (net of impairment provision of RR 96,599 and RR 70,820 as of 31 December 2008 and 2007, respectively)	393,996	307,311
Other receivables (net of impairment provision of RR 16,426 and RR 19,669 as of 31 December 2008 and 2007, respectively)	<u>113,300</u>	<u>270,044</u>
	<u>507,296</u>	<u>577,355</u>
Non-financial assets		
Prepayments and advances (net of impairment provision of RR 1,150 and RR 559 as of 31 December 2008 and 2007, respectively)	<u>168,638</u>	<u>120,109</u>
Total accounts receivable and prepayments	675,934	697,464

The estimated fair value of short-term accounts receivable approximates their carrying value.

As of 31 December 2008 and 2007 RR 318,757 and RR 211,416 of trade receivables, net of impairment provision, respectively, are denominated in foreign currencies, mainly US dollar and Euro.

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As of 31 December 2008 and 2007 other receivables include RR 33,680 and RR 215,926, respectively, relating to the operations of Group's banking subsidiaries. As of 31 December 2007 other receivables of banking subsidiaries were presented by OA O Gazprombank. The bank was deconsolidated in June 2008 (see Note 34). This balance mainly represents deposits with other banks and loans issued to customers at commercial rates based on credit risks and maturities.

Other receivables are mainly represented by accounts receivable from Russian customers.

As of 31 December 2008 the average effective interest rates on banking deposits and loans equaled 6.5% on balances denominated in Russian Roubles and varied from 1.2% to 4.1% on balances denominated in foreign currencies.

As of 31 December 2007 the average effective interest rates on banking deposits and loans ranged from 7.0% to 13.5% on balances denominated in Russian Roubles and from 3.3% to 8.8% on balances denominated in foreign currencies.

The fair value of banking deposits and loans approximate the carrying values, as the majority of them are short-term in nature and are issued at commercial rates.

Approximately 2% and 3% of accounts receivable settled during the years ended 31 December 2008 and 2007, respectively, were settled via mutual settlements or other non-cash settlements.

As of 31 December 2008 and 2007, trade receivables of RR 23,260 and RR 29,756, respectively, were past due but not impaired. These mainly relate to a number of customers for whom there is no recent history of material default. The ageing analysis of these trade receivables is as follows:

Ageing from the due date	31 December	
	2008	2007
Up to 6 months	17,807	20,251
From 6 to 12 months	1,952	1,176
From 1 to 3 years	855	3,444
More than 3 years	<u>2,646</u>	<u>4,885</u>
	23,260	29,756

As of 31 December 2008 and 2007, trade receivables of RR 108,756 and RR 88,852, respectively, were impaired and provided for. The amount of the provision was RR 96,599 and RR 70,820 as of 31 December 2008 and 2007, respectively. The individually impaired receivables mainly relate to gas sales to certain Russian regions and FSU countries, which are in difficult economic situations. In the management's view a portion of the receivables will be recovered. The ageing analysis of these receivables is as follows:

Ageing from the due date	Gross book value		Provision		Net book value	
	31 December		31 December		31 December	
	2008	2007	2008	2007	2008	2007
Up to 6 months	11,583	9,824	(8,302)	(6,533)	3,281	3,291
From 6 to 12 months	11,146	10,623	(10,544)	(8,028)	602	2,595
From 1 to 3 years	26,652	29,562	(25,969)	(23,953)	683	5,609
More than 3 years	<u>59,375</u>	<u>38,843</u>	<u>(51,784)</u>	<u>(32,306)</u>	<u>7,591</u>	<u>6,537</u>
	108,756	88,852	(96,599)	(70,820)	12,157	18,032

As of 31 December 2008 and 2007, trade receivables of RR 358,579 and RR 259,523, respectively, were neither past due nor impaired. Management's experience indicates customer payment histories vary by geography. The credit quality of these assets can be analysed as follows:

	31 December	
	2008	2007
Europe and other countries gas, crude oil, gas condensate and refined products debtors	212,625	151,983
FSU gas, crude oil, gas condensate and refined products debtors	80,526	53,121
Domestic gas, crude oil, gas condensate and refined products debtors	27,349	26,867
Power sales debtors	3,733	2,555
Transportation services debtors	3,653	2,287
Other trade debtors	<u>30,693</u>	<u>22,710</u>
Total trade receivables neither past due, nor impaired	358,579	259,523

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As of 31 December 2008 and 2007, trade receivables that would otherwise be past due whose terms have been renegotiated, amounted to RR 13,384 and RR 7,445, respectively.

Movements of the Group provision for impairment of trade receivables are as follows:

	Trade receivables		Other receivables	
	Year ended		Year ended	
	31 December		31 December	
	2008	2007	2008	2007
Impairment provision at the beginning of the year	70,820	66,020	19,669	23,951
Impairment provision accrued*	30,880	12,614	4,390	893
Write-off of receivables during the year	(677)	(529)	(56)	(41)
Release of previously created provision*	(1,849)	(4,913)	(1,157)	(5,134)
Unwind of discounting*	(1,400)	(2,372)	-	-
Acquisition of subsidiaries	-	-	1,235	-
Gazprombank Group deconsolidation (see Note 34)	<u>(1,175)</u>	<u>-</u>	<u>(7,655)</u>	<u>-</u>
Impairment provision at the end of the year	96,599	70,820	16,426	19,669

* The accrual and release of provision for impaired receivables and effect of discounting have been included in impairment provision and other provisions in the consolidated statement of income.

Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

11 INVENTORIES

	31 December	
	2008	2007
Gas in pipelines and storage	132,085	109,840
Materials and supplies (net of an obsolescence provision of RR 409 and RR 1,653 as of 31 December 2008 and 2007, respectively)	114,918	89,675
Goods for resale (net of an obsolescence provision of RR 165 and RR 143 as of 31 December 2008 and 2007, respectively)	16,069	18,376
Crude oil and refined products	<u>13,882</u>	<u>27,515</u>
	276,954	245,406

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS– 31 DECEMBER 2008
(In millions of Russian Roubles)

12 PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Machinery and equipment	Buildings and roads	Produc- tion licenses	Social assets	Assets under construction	Total
As of 31.12.06								
Cost	1,621,078	595,817	1,020,655	1,024,589	305,314	90,081	374,995	5,032,529
Accumulated depreciation	(782,076)	(234,512)	(490,762)	(429,980)	(30,865)	(29,366)	-	(1,997,561)
Net book value at 31.12.06	839,002	361,305	529,893	594,609	274,449	60,715	374,995	3,034,968
Depreciation	(44,298)	(18,561)	(60,286)	(36,273)	(22,619)	(2,559)	-	(184,596)
Additions	69	84	16,422	903	17,595	188	533,141	568,402
Acquisition of subsidiaries	-	-	49,834	42,920	-	25	16,575	109,354
Transfers	77,261	60,499	109,078	100,231	-	2,861	(349,930)	-
Disposals	(146)	(594)	(5,464)	(7,413)	-	(5,748)	(18,276)	(37,641)
Release of (charge for) impairment provision	55	38	132	22	-	-	(257)	(10)
Net book value at 31.12.07	871,943	402,771	639,609	694,999	269,425	55,482	556,248	3,490,477
As of 31.12.07								
Cost	1,698,146	654,681	1,190,182	1,156,744	322,907	83,597	556,248	5,662,505
Accumulated depreciation	(826,203)	(251,910)	(550,573)	(461,745)	(53,482)	(28,115)	-	(2,172,028)
Net book value at 31.12.07	871,943	402,771	639,609	694,999	269,425	55,482	556,248	3,490,477
Depreciation	(44,990)	(20,395)	(70,692)	(41,229)	(20,482)	(2,407)	-	(200,195)
Additions	404	275	8,953	7,869	5,838	1,615	689,169	714,123
Acquisition of subsidiaries	18,124	-	60,375	82,491	-	7	5,802	166,799
Disposal of subsidiaries	(48)	-	(25,198)	(18,703)	-	(800)	(27,742)	(72,491)
Transfers	85,402	59,253	156,243	139,990	-	5,252	(446,140)	-
Disposals	(20)	(1,921)	(4,044)	(1,819)	-	(3,633)	(12,589)	(24,026)
Charge for impairment provision	-	-	(22,470)	(25,954)	-	-	(5,741)	(54,165)
Net book value at 31.12.08	930,815	439,983	742,776	837,644	254,781	55,516	759,007	4,020,522
As of 31.12.08								
Cost	1,802,481	710,643	1,348,119	1,332,316	328,745	82,248	759,007	6,363,559
Accumulated depreciation	(871,666)	(270,660)	(605,343)	(494,672)	(73,964)	(26,732)	-	(2,343,037)
Net book value at 31.12.08	930,815	439,983	742,776	837,644	254,781	55,516	759,007	4,020,522

At each balance sheet date management assesses whether there is any indication that the recoverable value has declined below the carrying value of the property, plant and equipment. Based on the results of the impairment tests the Group recognized in 2008, an impairment loss of RR 48,424 for power generating assets (see Note 35). The impairment was primarily triggered by the increase in discount rates, projected reduction in electricity consumption and expected oil and electricity prices. The increase in discount rates was caused by unfavourable changes in macroeconomic indicators. As of 31 December 2008 and 2007 operating assets are shown net of provision for impairment of RR 50,750 and RR 2,326, respectively.

Assets under construction are presented net of a provision for impairment of RR 93,826 and RR 92,060 as of 31 December 2008 and 2007, respectively. Charges for impairment provision of assets under construction primarily relate to projects that have been indefinitely suspended and currently excluded from the Group's investment program.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RR 4,167 and RR 7,080 as of 31 December 2008 and 2007, respectively.

Included in additions above is capitalized interest of RR 28,001 and RR 19,661 for the years ended 31 December 2008 and 2007, respectively. Capitalization rates of 7.39% and 7.00% were used representing the weighted average borrowing cost of the relevant borrowings for the years ended 31 December 2008 and 2007, respectively.

Depreciation expenses in the consolidated statement of income do not include depreciation, which is considered as a cost of self-constructed assets (and thus capitalized rather than expensed) in amount of RR 2,319 and RR 1,518 for the years ended 31 December 2008 and 2007, respectively. Moreover, depreciation expenses in the consolidated statement of income do not include depreciation that is capitalized as a component of cost of inventories, consisting primarily of depreciation that is capitalized in cost of gas in amount of RR 4,471 and RR 2,359 for the years ended 31 December 2008 and 2007, respectively.

OA OGAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS– 31 DECEMBER 2008
(In millions of Russian Roubles)

13 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES

Notes		Carrying value as of 31 December		Group's share of the profit (loss)* for	
		2008	2007	2008	2007
	Sakhalin Energy Investment Company Ltd.	234,917	239,606	(10,325)	669
36	OA O NGK Slavneft and its subsidiaries	151,151	145,464	8,774	10,007
36	OA O NOVATEK	75,363	68,973	4,446	3,631
36	OA O Tomskneft VNK and its subsidiaries	69,286	88,181	(19,033)	-
36	Wintershall Gas GmbH & Co. KG	44,428	31,339	7,284	4,302
36	OA O TGC-1	32,309	-	(6,950)	-
36	OA O Beltransgaz	28,179	-	(3,322)	-
37	Nord Stream AG	25,528	-	(58)	-
36	OA O Salavaneftteorgsyntez	20,959	-	-	-
34, 36	Gazprombank Group**	-	-	(37,667)	-
36	SGT EuRoPol GAZ S.A.	16,921	31,131	(1,273)	2,664
	OA O Moscovsky NPZ	15,922	15,548	374	282
	Wintershall AG	12,856	10,259	3,459	-
36	TOO KazRosGaz	9,898	4,388	4,693	2,747
	OOO Sibmetakhim	4,153	-	808	-
36	AO Latvijas Gaze	4,100	3,571	373	563
	ZAO Nortgaz	3,876	2,843	1,034	795
	Shtokman Development AG	2,622	-	86	-
36	AO Lietuvos Dujos	2,226	2,095	9	391
36, 37	Blue Stream Pipeline company B.V.	1,232	895	147	(10)
36	RosUkrEnergo AG	33	73	25,334	(5,720)
	Other (net of provision for impairment of RR 3,000 and RR 5,819 as of 31 December 2008 and 31 December 2007, respectively)	<u>16,184</u>	<u>26,037</u>	<u>5,121</u>	<u>3,913</u>
		772,143	670,403	(16,686)	24,234

* represents Group's share of the profit (loss) of the associated undertakings and jointly controlled entities for the years ended 31 December 2008 and 2007, respectively, or for the period during which a company was included in investments in associated undertakings and jointly controlled entities.

** Gazprombank Group is accounted for as equity investment since 24 June 2008 due to deconsolidation of Gazprombank Group (see Note 34). The Group ceased to consolidate OA O Gazprombank and its subsidiaries from this date. The Group's share of Gazprombank Group's net loss from the date of the deconsolidation exceeded the investment resulting in reducing the carrying value to RR nil.

	Year ended 31 December	
	2008	2007
Balance at the beginning of the reporting period	670,403	318,142
Reclassification of investment in OA O Beltransgaz from Available-for-sale long-term financial assets	16,156	-
Share of net (loss) income of associated undertakings and jointly controlled entities (see Note 35)	(16,686)	24,234
Distribution from associated undertakings and jointly controlled entities	(38,434)	(10,933)
Translation differences	5,559	3,683
Gazprombank Group deconsolidation (see Note 34)	(4,740)	-
Change in equity of associated undertakings and jointly controlled entities	(4,972)	-
Acquisitions and disposals	<u>144,857</u>	<u>335,277</u>
Balance at the end of the reporting period	772,143	670,403

OA OGAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS– 31 DECEMBER 2008
(In millions of Russian Roubles)

13 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES
(continued)

Summarised financial information on the Group's principal associated undertakings and jointly controlled entities is as follows:

	Assets	Liabilities	Revenues	Profit (loss)
31 December 2008				
Gazprombank Group*	1,999,778	1,863,070	141,912	(91,981)
Sakhalin Energy Investment Company Ltd.	687,285	238,280	18,518	(20,649)
OA O NGK Slavneft and its subsidiaries	617,671	255,128	183,383	12,019
Wintershall Gas GmbH & Co. KG	159,329	127,328	350,749	17,735
OA O Tomskneft VNK and its subsidiaries	155,267	98,273	80,562	1,933
OA O NOVATEK	139,907	43,267	79,272	22,899
RosUkrEnergo AG	122,178	94,025	373,150	22,463
OA O TGC-1**	79,286	16,493	15,083	95
Blue Stream Pipeline company B.V.	69,123	64,330	7,324	591
SGT EuRoPol GAZ S.A.	61,304	26,053	12,485	(1,166)
OA O Salavatnefteorgsyntez***	59,661	35,764	-	-
Nord Stream AG****	56,385	4,309	1	(116)
OA O Beltransgaz****	55,980	16,114	71,295	2,805
OA O Moscovsky NPZ	46,703	3,615	10,745	966
AO Lietuvos Dujos	30,437	7,794	17,390	715
AO Latvijas Gaze	28,762	9,643	19,320	1,097
Wintershall AG	24,529	9,840	106,493	7,029
TOO KazRosGaz	20,956	1,159	25,675	9,385
ZAO Nortgaz	10,792	3,194	5,762	2,027
Shtokman Development AG	10,295	4,354	-	169
OOO Sibmetakhim*****	8,972	665	4,946	2,795

* Deconsolidation of Gazprombank Group since 24 June 2008 (see Note 34). The revenue and loss of Gazprombank Group are disclosed from the date it was accounted for as equity investment to 31 December 2008. Presented revenue of Gazprombank Group is identified according to the Group accounting policy and includes revenue of petrochemical business, media business, heavy machinery business and other non-banking companies.

** In July 2008 the Group acquired 28.7% interest in OA O TGC-1 for RR 39,219. The revenues and profit of OA O TGC-1 for the year ended 31 December 2008 are disclosed from the date of acquisition.

*** The revenues and profit (loss) of OA O Salavatnefteorgsyntez for the year ended 31 December 2008 are not disclosed as it was acquired in late 2008.

**** In February 2008 the Group purchased 12.5% interest in OA O Beltransgaz for USD 625 million. As a result the Group increased its interest in OA O Beltransgaz up to 25%. The revenues and profit of OA O Beltransgaz for the year ended 31 December 2008 are disclosed from the date of acquisition of additional shares.

***** In the first half of 2008 the Group contributed additional RR 21,686 into the charter capital of Nord Stream AG. The Group's interest did not change as a result of this transaction.

***** Group's share in OOO Sibmetakhim decreased to 50% due to deconsolidation of Gazprombank Group (see Note 34).

	Assets	Liabilities	Revenues	Profit (loss)
31 December 2007				
Sakhalin Energy Investment Company Ltd.*	454,270	83,904	21,143	(31,442)
OA O NGK Slavneft and its subsidiaries	402,339	101,857	159,584	13,625
Wintershall Gas GmbH & Co. KG	112,143	92,028	215,230	8,733
OA O NOVATEK	103,975	22,163	62,431	18,736
RosUkrEnergo AG	96,683	74,609	259,059	20,770
OA O Tomskneft VNK and its subsidiaries*	74,479	53,067	-	-
SGT EuRoPol GAZ S.A.	62,469	25,571	14,249	5,441
OA O Stroytransgaz	58,244	39,315	37,971	428
Blue Stream Pipeline company B.V.	57,621	54,155	6,734	(39)
OA O Moscovsky NPZ	43,633	3,615	9,611	696
AO Lietuvos Dujos	25,420	5,472	10,413	1,056
AO Latvijas Gaze	24,374	7,694	12,081	1,656
Wintershall AG*	23,216	12,261	-	-
TOO KazRosGaz	9,693	916	15,921	5,494
ZAO Nortgaz	7,911	2,339	5,498	1,559

* The revenues and profit (loss) of Sakhalin Energy Investment Company Ltd. for the year 2007 are disclosed from the date of acquisition. The revenues and profit (loss) of OA O Tomskneft VNK and its subsidiaries and of Wintershall AG for the year ended 31 December 2007 are not disclosed as they were acquired in late 2007.

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS– 31 DECEMBER 2008
(In millions of Russian Roubles)

13 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES (continued)

The estimated fair values of investments in associated undertakings for which there are published price quotations were as follows:

	31 December	
	2008	2007
OA O NOVATEK	33,130	111,149
AO Lietuvos Dujos	7,387	6,365
OA O TGC-1	3,761	-
AO Latvijas Gaze	3,193	7,161

Principal associated undertakings and jointly controlled entities

Entities	Country	Nature of operations	% of ordinary shares held as of 31 December*	
			2008	2007
ZAO Achimgaz	Russia	Exploration and production of gas	50	50
OA O Beltransgaz	Belarus	Transportation and gas supply	25	-
Blue Stream Pipeline company B.V. (BSPC)	Netherlands	Construction, gas transportation	50	50
Bosphorus Gaz Corporation A.S.	Turkey	Gas distribution	40	40
Centrex Beteiligungs GmbH	Austria	Gas distribution	38	38
SGT EuRoPol GAZ S.A.	Poland	Transportation and gas distribution	48	48
Gaz Project Development Central Asia AG	Switzerland	Gas distribution	50	50
OA O Gazprombank	Russia	Banking	45	45
AO Gazum	Finland	Gas distribution	25	25
TOO KazRosGaz	Kazakhstan	Gas processing and sale of gas and refined products	50	50
AO Latvijas Gaze	Latvia	Transportation and gas distribution	34	34
AO Lietuvos Dujos	Lithuania	Transportation and gas distribution	37	37
AO Moldovagaz	Moldova	Transportation and gas distribution	50	50
OA O Moskovsky NPZ	Russia	Processing and distribution of refined products	39	39
ZAO Nortgaz	Russia	Exploration and sale of gas and gas condensate	51	51
OA O NOVATEK	Russia	Production and distribution of gas	19	19
Nord Stream AG	Switzerland	Construction, gas transportation	51	51
AO Overgaz Inc.	Bulgaria	Gas distribution	50	50
ZAO Panrusgaz	Hungary	Gas distribution	40	40
AO Prometheus Gas	Greece	Foreign trade activity, construction	50	50
RosUkrEnergo AG	Switzerland	Gas distribution	50	50
Sakhalin Energy Investment Company Ltd.	Bermuda Islands	Oil production, production of LNG	50	50
OA O Salavatnefteorgsyntez**	Russia	Processing and distribution of refined products	50	-
OOO Sibmetakhim	Russia	Gas processing and sale of petrochemicals	50	100
OA O NGK Slavneft	Russia	Production of oil, sale of oil and refined products	50	50
Shtokman Development AG	Switzerland	Exploration and production of gas	51	-
OA O TGC-1	Russia	Production and transfer of electric and heat energy	29	-
OA O Tomskneft VNK	Russia	Oil production	50	50
AO Turusgaz	Turkey	Gas distribution	45	45
Vemex s.r.o	Czech Republic	Gas distribution	33	33
Wintershall AG	Germany	Production of oil and gas distribution	49	49
Wintershall Gas GmbH & Co. KG	Germany	Transportation and gas distribution	50	50
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	Germany	Gas distribution	50	50
Wintershall Erdgas Handelshaus ZUG AG (WIEE)	Switzerland	Gas distribution	50	50

* Cumulative share of Group companies in charter capital of investments.

** Investment in OA O Salavatnefteorgsyntez is accounted under the equity method of accounting. The amount of ordinary shares which provides voting rights to the Group is restricted to 30% till the date of public offer for shares purchase to minority shareholders. The public offer to minority shareholders was made by the Group in February 2009.

14 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2008	2007
Long-term accounts receivable and prepayments (net of impairment provision of RR 17,303 and RR 17,507 as of 31 December 2008 and 2007, respectively)	150,502	270,430
Advances for assets under construction (net of impairment provision of RR 6 and RR 127 of 31 December 2008 and 2007, respectively)	<u>193,303</u>	<u>131,952</u>
	343,805	402,382

As of 31 December 2008 and 2007 long-term accounts receivable included RR 33,163 and RR 180,620, relating to the operations of Group's banking subsidiaries, respectively. As of 31 December 2007 long-term accounts receivable of the banking subsidiaries were presented by OAO Gazprombank. The bank was deconsolidated in June 2008 (see Note 34). This balance mainly represents deposits and long-term loans issued to customers at commercial rates based on credit risk and maturities.

As of 31 December 2008 and 2007, long-term accounts receivable and prepayments with carrying value RR 150,502 and RR 270,430 have the estimated fair value RR 146,663 and RR 268,144, respectively.

Long-term accounts receivable and prepayments include prepayments in amount of RR 3,136 and nil as of 31 December 2008 and 2007 respectively.

Long-term accounts receivable of RR 71,029 and RR 207,039 as of 31 December 2008 and 2007, respectively, were impaired and provided for. These receivables as of 31 December 2008 and 2007 mainly related to banking subsidiaries operations. The amount of the provision was RR 17,303 and RR 17,507 as of 31 December 2008 and 2007, respectively.

As of 31 December 2008 and 2007, long-term accounts receivable of RR 3 and RR 689, respectively, were past due but not impaired.

As of 31 December 2008 and 2007, long-term accounts receivable of RR 96,773 and RR 80,209, respectively, were neither past due, nor impaired. The credit quality of these assets can be analysed as follows:

	31 December	
	2008	2007
Accounts receivable of Group's banking subsidiaries	151	12,516
Long-term loans	80,579	31,697
Long-term trade receivables	10,097	26,267
Other long-term receivables	<u>5,946</u>	<u>9,729</u>
Total long-term accounts receivable neither past due, nor impaired	96,773	80,209

Management experience indicates that long-term loans and other long-term receivables are of lower credit quality than accounts receivable of Group's banking subsidiaries and long-term trade receivables.

As of 31 December 2008 and 2007, trade receivables that would otherwise be past due whose terms have been renegotiated, amounted to RR 7,548 and RR 9,974, respectively.

Movements of the Group provision for impairment of accounts receivable are as follows:

	Year ended 31 December	
	2008	2007
Impairment provision at the beginning of the year	17,507	15,085
Impairment provision accrued*	6,361	3,261
Release of previously created provision*	-	(839)
Acquisition of subsidiaries	2,181	-
Gazprombank Group deconsolidation (see Note 34)	<u>(8,746)</u>	<u>-</u>
Impairment provision at the end of the year	17,303	17,507

* The accrual and release of provision for impaired receivables have been included in impairment provision and other provisions in the consolidated statement of income.

15 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

	31 December	
	2008	2007
Equity instruments at fair value:		
RAO UES of Russia	-	143,407
OA O WGC-2*, OA O WGC-6* and other energy assets (net of provision for impairment of RR 7,545 and RR nil as of 31 December 2008 and 2007, respectively)	14,567	46,693
Other (net of provision for impairment of RR 1,468 and RR 2,209 as of 31 December 2008 and 2007, respectively)	13,850	63,192
Debt instruments (net of provision for impairment of RR nil and RR 258 as of 31 December 2008 and 2007, respectively)	<u>19,769</u>	<u>2,918</u>
	48,186	256,210

* Investment in OA O WGC-2 and OA O WGC-6 are presented within available-for-sales financial statements as of 31 December 2007. The Group held a 10.49% interest in the share capital of RAO UES of Russia as of 31 December 2007. 1 July 2008 as a result of the reorganization of RAO UES of Russia the Group obtained interest in certain energy and power generation companies including OA O WGC-2 and OA O WGC-6 which are both consolidated from 1 July 2008 (see Note 33).

The fair value of the majority of the Group's equity instruments was determined on the basis of market quotations.

	Year ended	
	31 December	
Movements in long-term available-for-sale assets	2008	2007
Balance at the beginning of the year	256,210	150,874
Decrease in fair value recognized in equity (see Note 21)	(77,952)	-
Increase in fair value recognized in equity	-	21,201
Purchased available-for-sale assets	5,627	90,199
Consolidation of OA O WGC-2 and OA O WGC-6 (see Note 33)	(89,577)	-
Gazprombank Group deconsolidation (see Note 34)	(20,437)	-
Reclassification of investment in OA O Beltransgaz (see Note 13)	(16,156)	-
Available-for-sale assets disposed	(997)	(5,700)
Impairment on available-for-sale assets	<u>(8,532)</u>	<u>(364)</u>
Balance at the end of the year	48,186	256,210

The maximum exposure to credit risk at the reporting date is the fair value of the debt securities classified as available-for-sale. The impairment of available-for-sale assets has been performed using the quoted market prices.

None of the financial assets that are fully performing have been renegotiated in the reporting period.

16 OTHER NON-CURRENT ASSETS

Included within other non-current assets is VAT recoverable related to assets under construction totalling RR 49,560 and RR 24,135 as of 31 December 2008 and 2007, respectively.

Included within other non-current assets as of 31 December 2007 is the fair value of the call option with ENI S.p.A. to acquire its 20% interest in OA O Gazprom Neft (see Note 40) in the amount of RR 50,738. The fair value of this option is RR nil as of 31 December 2008.

Other non current assets include net pension assets in the amount of RR 243,982 as of 31 December 2008 and 31 December 2007 (see Note 23).

17 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December	
	2008	2007
Financial liabilities		
Trade payables	210,858	144,532
Accounts payable for acquisition of property, plant and equipment	111,483	82,890
Liabilities of Group's banking subsidiaries	24,344	195,227
Other payables	<u>94,819</u>	<u>49,970</u>
	441,504	472,619
Non-financial liabilities		
Advances received	24,025	10,009
Accruals and deferred income	<u>1,228</u>	<u>2,838</u>
	<u>25,253</u>	<u>12,847</u>
	466,757	485,466

Liabilities of Group's banking subsidiaries represent amounts due to the bank's customers with terms at commercial rates ranging from 0.01% to 8.5% per annum and from 0.9% to 8.0% per annum as of 31 December 2008 and 2007, respectively.

For the years ended 31 December 2008 and 2007 approximately 5% and 8% of the Group's settlements of accounts payable and accrued charges were made by non-cash settlements.

Trade payables of RR 16,364 and RR 41,243 were denominated in foreign currency, mainly the US dollar and Euro, as of 31 December 2008 and 2007, respectively. Book values of accounts payable approximate their fair value.

18 OTHER TAXES PAYABLE

	31 December	
	2008	2007
VAT	20,134	17,000
Natural resources production tax	10,593	16,595
Excise tax	3,131	3,626
Property tax	7,395	5,258
Tax penalties and interest	151	1,955
Other taxes	<u>9,342</u>	<u>6,274</u>
	50,746	50,708
Less: long-term portion of restructured tax liabilities	<u>(124)</u>	<u>(178)</u>
	50,622	50,530

19 SHORT-TERM BORROWINGS AND PROMISSORY NOTES AND CURRENT PORTION OF LONG-TERM BORROWINGS

	31 December	
	2008	2007
Short-term borrowings:		
RR denominated borrowings	90,770	129,331
Foreign currency denominated borrowings	<u>102,851</u>	<u>100,596</u>
	193,621	229,927
Current portion of long-term borrowings (see Note 20)	<u>239,019</u>	<u>274,143</u>
	432,640	504,070

Short-term RR denominated borrowings had average interest rates ranging from 9.6% to 18.0% and from 7.0% to 10.5% for the years ended 31 December 2008 and 2007, respectively. Short-term foreign currency denominated borrowings had average interest rates ranging from 3.2% to 8.5% and from 4.4% to 8.9% for the years ended 31 December 2008 and 2007, respectively.

19 SHORT-TERM BORROWINGS AND PROMISSORY NOTES AND CURRENT PORTION OF LONG-TERM BORROWINGS (continued)

As of 31 December 2008 and 2007, respectively, short-term borrowings include RR 59,484 and RR 176,716 of short-term borrowings of bank subsidiaries.

The Group's short-term promissory notes payable had average interest rates ranging from 0% to 13.1% and from 5.7% to 7.2% for the years ended 31 December 2008 and 2007, respectively.

Fair values approximate the carrying value of these liabilities.

20 LONG-TERM BORROWINGS AND PROMISSORY NOTES

	Currency	Final Maturity	31 December 2008	2007
Long-term borrowings payable to:				
Credit Suisse International	JPY	2018	58,654	-
ABN AMRO Bank N.V.	US dollar	2013	53,065	44,334
Loan participation notes issued in October 2007 ¹	Euro	2018	52,628	43,651
Loan participation notes issued in June 2007 ¹	GBP	2013	47,201	39,435
ABN AMRO Bank N.V. ²	US dollar	2012	44,245	49,614
Loan participation notes issued in May 2005 ¹	Euro	2015	42,861	37,165
Loan participation notes issued in September 2003 ¹	Euro	2010	42,291	36,668
Loan participation notes issued in December 2005 ¹	Euro	2012	41,557	36,033
Calyon Credit Agricole CIB ²	US dollar	2010	41,183	54,289
Loan participation notes issued in November 2006 ¹	US dollar	2016	39,930	33,360
Loan participation notes issued in March 2007 ¹	US dollar	2022	38,982	32,568
Loan participation notes issued in August 2007 ¹	US dollar	2037	37,729	31,521
Loan participation notes issued in April 2004 ¹	US dollar	2034	35,789	29,900
Loan participation notes issued in October 2006 ¹	Euro	2014	33,706	29,225
Loan participation notes issued in April 2008 ¹	US dollar	2018	32,903	-
Structured export notes issued in July 2004 ³	US dollar	2020	30,451	28,645
WestLB AG ²	US dollar	2013	29,760	-
Loan participation notes issued in June 2007 ¹	Euro	2014	29,273	25,382
Deutsche Bank AG	US dollar	2014	25,553	29,618
Loan participation notes issued in November 2006 ¹	Euro	2017	21,552	18,685
Salomon Brothers AG	US dollar	2009	20,975	17,524
Loan participation notes issued in March 2007 ¹	Euro	2017	20,906	18,127
Dresdner Bank AG ²	US dollar	2010	18,558	23,283
ABN AMRO Bank N.V. ²	US dollar	2010	18,535	24,429
Credit Suisse International	Euro	2009	16,680	14,467
Salomon Brothers AG	US dollar	2009	15,436	12,903
Credit Suisse International	US dollar	2017	15,414	12,877
Loan participation notes issued in July 2008 ¹	US dollar	2013	15,107	-
Credit Suisse International	US dollar	2009	14,712	12,292
Commerzbank AG ²	US dollar	2010	12,358	-
Loan participation notes issued in April 2008 ¹	US dollar	2013	11,944	-
OOO Aragon ⁴	Euro	2010	11,397	9,882

7 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	Currency	Final Maturity	31 December 2008	2007
Credit Suisse International	Euro	2010	10,418	9,036
Credit Suisse International	Euro	2009	8,466	7,246
Deutsche Bank AG	US dollar	2011	8,455	8,718
Loan participation notes issued in November 2007 ¹	JPY	2012	7,729	6,457
OA O Bank of Moscow	Rouble	2010	7,529	-
OA O Gazprombank	Rouble	2012	7,508	-
BNP Paribas SA ²	US dollar	2009	5,946	4,913
Credit Suisse International	US dollar	2009	5,894	4,931
Russian bonds issued in July 2007 ⁵	Rouble	2010	5,192	-
Russian bonds issued in February 2005	Rouble	2010	5,158	5,155
Loan participation notes issued in November 2007 ¹	JPY	2010	5,151	4,303
Russian bonds issued in February 2007	Rouble	2014	5,132	5,130
Russian bonds issued in August 2005	Rouble	2009	5,100	5,137
ABN AMRO Bank N.V. ²	US dollar	2013	5,068	-
Russian bonds issued in November 2006	Rouble	2011	5,059	5,058
Russian bonds issued in November 2006	Rouble	2009	5,058	5,056
Russian bonds issued in September 2006 ⁶	Rouble	2011	4,908	5,107
Citibank International PLC	US dollar	2009	4,803	10,908
Russian bonds issued in March 2006 ⁶	Rouble	2016	4,731	5,129
Wintershall Holding AG ⁴	Euro	2010	4,686	4,063
Gazstream S.A.	US dollar	2010	4,638	5,673
Gazstream S.A.	US dollar	2012	4,565	4,768
JP Morgan Chase bank	US dollar	2011	4,429	4,942
European bank for reconstruction and development	Rouble	2012	3,878	4,321
OA O Gazprombank	US dollar	2010	2,978	-
Russian bonds issued in April 2007 ⁵	Rouble	2012	2,915	-
European bank for reconstruction and development	Rouble	2018	2,792	2,914
OA O Bank of Moscow	Rouble	2009	2,533	-
ABN AMRO Bank N.V.	US dollar	2009	2,453	4,105
Citibank International PLC ²	US dollar	2008	-	43,051
Credit Suisse International	US dollar	2008	-	40,250
Eurobonds issued in September 2005 ⁷	US dollar	2015	-	24,768
Eurobonds issued in October 2003 ⁷	US dollar	2008	-	18,607
Eurobonds issued in April 2007 ⁷	US dollar	2010	-	17,145
Dresdner Bank AG ²	US dollar	2008	-	15,516
Depfa Investment Bank Ltd. ²	US dollar	2008	-	12,590
Sumitomo Mitsui Banking Corporation Europe Limited ²	US dollar	2008	-	12,326
Credit Suisse International	US dollar	2008	-	12,041
JP Morgan Chase bank	Rouble	2008	-	11,833
Eurobonds issued in February 2007 ⁷	Rouble	2010	-	10,219
Eurobonds issued in January 2004 ⁷	US dollar	2008	-	7,443
Credit Suisse International	Euro	2008	-	7,279
Wintershall Holding AG ⁴	Rouble	2008	-	6,975
ABN AMRO Bank N.V. ²	US dollar	2008	-	5,674
Liberty Hampshire Corporation	Rouble	2008	-	5,067
ABN AMRO Bank N.V. ²	US dollar	2008	-	4,450
Mannesmann (Deutsche Bank AG) ²	Euro	2008	-	3,011

8 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	Currency	Final Maturity	31 December 2008	31 December 2007
Wintershall Holding AG ⁴	Rouble	2008	-	3,000
Other long-term borrowings	Various	Various	<u>37,742</u>	<u>125,359</u>
Total long-term borrowings			1,162,249	1,255,551
Less: current portion of long-term borrowings			<u>(239,019)</u>	<u>(274,143)</u>
			923,230	981,408

¹ Issuer of these bonds is Gaz Capital S.A.

² Loans received from syndicate of banks, named lender is the bank-agent.

³ Issuer of these notes is Gazprom International S.A.

⁴ Loans were obtained for development of Yuzhno-Russkoye oil and gas field.

⁵ Issuers of these notes are OAO WGC-2 and OAO WGC-6.

⁶ Issuer of these bonds is OAO Mosenergo.

⁷ Issuer of these bonds is OAO Gazprombank.

	31 December 2008	31 December 2007
RR denominated borrowings (including current portion of RR 20,487 and RR 29,373 as of 31 December 2008 and 2007, respectively)	95,035	165,146
Foreign currency denominated borrowings (including current portion of RR 218,532 and RR 244,770 as of 31 December 2008 and 2007, respectively)	<u>1,067,214</u>	<u>1,090,405</u>
	1,162,249	1,255,551

	31 December 2008	31 December 2007
Due for repayment:		
Between one and two years	181,615	188,171
Between two and five years	267,294	277,673
After five years	<u>474,321</u>	<u>515,564</u>
	923,230	981,408

Long-term borrowings include fixed rate loans with a carrying value of RR 914,237 and RR 869,194 and fair value of RR 749,630 and RR 871,253 as of 31 December 2008 and 2007, respectively. All other long-term borrowings have variable interest rates generally linked to LIBOR, and the difference between carrying value of these liabilities and its fair value is not significant.

As of 31 December 2008 and 31 December 2007 long-term borrowings include RR 18,442 (including current portion of RR nil) and RR 162,259 (including current portion of RR 20,611), relating to the operations of Group's banking subsidiaries, respectively. As of 31 December 2007 long-term borrowings of the banking subsidiaries were mainly presented by OAO Gazprombank. The bank was deconsolidated in June 2008 (see Note 34).

As of 31 December 2008 and 2007, the Group did not have material formal hedging arrangements to mitigate its foreign exchange risk or interest rate risk.

The weighted average effective interest rates at the balance sheet date were as follows:

	31 December 2008	31 December 2007
Fixed rate RR denominated long-term borrowings	7.30%	7.29%
Fixed rate foreign currency denominated long-term borrowings	6.59%	5.96%
Variable rate foreign currency denominated long-term borrowings	4.64%	6.34%

As of 31 December 2008 and 2007 long-term borrowings of RR 30,451 and RR 28,645, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Western Europe.

The Group has no subordinated debt and no debt that may be converted into an equity interest in the Group (see Note 24).

The Group's long-term promissory notes payable had average interest rates ranging from 0% to 11.4% and from 6.9% to 8.3% for the years ended 31 December 2008 and 2007, respectively.

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS– 31 DECEMBER 2008
(In millions of Russian Roubles)

21 PROFIT TAX

Profit before profit tax for financial reporting purposes is reconciled to profit tax expense as follows:

Notes	Year ended 31 December	
	2008	2007
Profit before profit tax	<u>1,031,632</u>	<u>924,204</u>
Theoretical tax charge calculated at applicable tax rates	(247,592)	(223,422)
Tax effect of items which are not deductible or assessable for taxation purposes		
Non-deductible expenses incl.:	(71,084)	(48,019)
13,35 Non-deductible expenses on impairment loss for associated undertakings and jointly controlled entities	(6,764)	-
16 Non-deductible expenses from call option fair value change	(12,177)	-
Non-taxable income from sale of subsidiary	-	13,818
16 Non-taxable income from call option fair value change	-	12,177
Non-taxable income from Gazfund deconsolidation	-	10,726
Other non-taxable income	6,194	5,501
Effect of reduction in tax rate to 20% enacted in 2008 with effect from 1 January 2009	<u>52,230</u>	<u>-</u>
Profit tax expense	(260,252)	(229,219)

Profit tax expense in the consolidated statement of income is stated net of RR 424 and RR 221 of tax attributable to gains arising on treasury shares transactions for the years ended 31 December 2008 and 2007, respectively.

In November 2008 the Federal Law on amendments to the Russian Tax Code enacted the decrease in corporate profit tax rate from 24% to 20%, effective from 1 January 2009. This tax rate was applied to determine the deferred tax liabilities as of 31 December 2008.

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the enacted from 1 January 2009 rate of 20% (for the year ended 31 December 2007: 24%).

	31 December 2008	Effect from tax rate change	Differences recognition and reversals at 24% rate	31 December 2007	Differences recognition and reversals	31 December 2006
Tax effects of taxable temporary differences:						
Property, plant and equipment	(248,706)	49,843	(31,584)	(266,965)	(25,226)	(241,739)
Financial assets	(19,332)	2,939	18,889	(41,160)	(3,048)	(38,112)
Inventories	<u>(1,821)</u>	<u>364</u>	<u>1,816</u>	<u>(4,001)</u>	<u>(3,812)</u>	<u>(189)</u>
	(269,859)	53,146	(10,879)	(312,126)	(32,086)	(280,040)
Tax effects of deductible temporary differences:						
Tax losses carry forward	1,333	(267)	623	977	(729)	1,706
Other deductible temporary differences	<u>3,247</u>	<u>(649)</u>	<u>1,100</u>	<u>2,796</u>	<u>(30)</u>	<u>2,826</u>
Total net deferred tax liabilities	(265,279)	52,230	(9,156)	(308,353)	(32,845)	(275,508)

Taxable temporary differences recognized in 2008 include the effect of the acquisition of the controlling interest in OAO WGC-2 and OAO WGC-6 (see Note 33), including RR 29,136 related to property, plant and equipment.

As of 31 December 2007 the taxable temporary differences include differences related to fair value adjustment on RAO UES of Russia shares and other energy assets in the amount of RR 28,251. During six months ended 30 June 2008, differences of RR 18,846 were reversed due to decreases in fair value of RAO UES of Russia shares and other energy assets. Difference at the amount of RR 9,405 was reversed due to the exchange of interest in RAO UES of Russia for ownership interests in certain energy companies (see Note 33).

Deferred tax assets and liabilities arise mainly from differences in the taxable and financial reporting bases of property, plant and equipment. These differences for property, plant and equipment are historically due to the fact that a significant proportion of the tax base was determined upon independent appraisals, the most recent of which was recognised for profit tax purposes as of 1 January 2001, while the financial reporting base is historical cost restated for changes in the general purchasing power of the RR until 31 December 2002.

21 PROFIT TAX (continued)

From 1 January 2002, any revaluation of property, plant and equipment recorded in the statutory accounting records is not recorded in the tax accounting records and therefore has no impact on temporary differences.

In accordance with the tax legislation of the Russian Federation tax losses and current tax assets of a company of the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is separately determined for main activities, income from operations with securities and service activities. Tax losses arising from one type of activity can not be offset with taxable profit of other types of activity. Also, a deferred tax asset of one company (type of activity) of the Group can not be offset against a deferred tax liability of another company (type of activity). As of 31 December 2008 and 2007 deferred tax assets on temporary differences in the amount of RR 20,669 and RR 17,583, respectively, have not been recorded because it is not probable that sufficient taxable profit of the Group subsidiaries will be available to allow the benefit of that deferred tax asset to be utilised.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 324,581 and RR 403,468 as of 31 December 2008 and 2007, respectively. A deferred tax liability on these temporary differences was not recognized because management controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

22 FINANCIAL INSTRUMENTS

As of 31 December 2008 the Group had outstanding commodity contracts and foreign currencies at the market price at the date of maturity. The Group expects to settle these contracts in the normal course of business. These instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions.

The following table provides an analysis of the Group's position and fair value of derivatives outstanding as of the end of the reporting period. Fair values of derivatives are reflected at their gross value in the balance sheet.

	31 December			
	2008		2007	
	Notional principal equivalents	Fair value	Notional principal equivalents	Fair value
Foreign exchange option contracts				
Call options written – foreign	-	-	(6,251)	(557)
Put options written – foreign	-	-	(553)	(1)
	-	-	(6,804)	(558)
Foreign exchange forward contracts				
Assets foreign	54,475	6,051	160,193	5,176
Assets domestic	-	-	75,799	1,864
Liabilities foreign	(12,974)	(339)	(86,984)	(1,231)
Liabilities domestic	-	-	(90,803)	(1,507)
	41,501	5,712	58,205	4,302
Securities option contracts				
Put options written – foreign	-	-	(40,967)	(4,666)
	-	-	(40,967)	(4,666)
Securities forward contracts				
Assets – foreign	-	-	3,008	2
Assets – domestic	-	-	3,976	101
Liabilities – foreign	-	-	(1,473)	(373)
Liabilities – domestic	-	-	(3,443)	(11)
	-	-	2,068	(281)
Swap contracts				
Interest swap contracts (assets) – foreign	14,690	2,138	-	-
Currency swap contracts (assets) – foreign	988	105	5,063	199
Interest swap contracts (liabilities) – foreign	(2,756)	(44)	(12,528)	-
	12,922	2,199	(7,465)	199
Emission allowances				
Assets	2,360	632	-	-
Liabilities	(5,495)	(542)	-	-
	(3,135)	90	-	-
Commodity contracts				
Commodity contracts assets	321,816	46,947	103,119	16,265
Commodity contracts liabilities	(199,784)	(46,177)	(150,161)	(19,813)
	122,032	770	(47,042)	(3,548)

22 FINANCIAL INSTRUMENTS (continued)

The maturities of all derivative financial instruments are less than one year, and the majority of the contracts have maturities less than one month. All deals are fixed price contracts and are settled in the normal course of business.

The Group enters into contracts to receive and deliver commodities in accordance with its expected purchase, sale or usage requirements. Such contracts are not considered derivatives and are not included in the table above.

23 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December	
	2008	2007
Provision for environmental liabilities	50,550	51,604
Provision for pension obligations	28,128	20,738
Other	7,129	6,871
	85,807	79,213

The Group operates a defined benefit plan, concerning the majority of its employees. These benefits include pension benefits provided by the non-governmental pension fund, NPF Gazfund and certain post-retirement benefits, from the Group at their retirement date.

Principal actuarial assumptions used:

	31 December	
	2008	2007
Discount rate (nominal)	8.6%	6.6%
Future salary and pension increases (nominal)	6.5%	6.8%
Turnover ratio p.a.	4.2%	5%
Employees average remaining working life (years)	15	15

The assumptions relating to life expectancy at normal pension age were 17 years for a 60 year old man and 28 years for a 55 year old woman in 2008 and 2007.

The Group expects a 6% return on the plan assets as at 31 December 2008 and 5% return as at 31 December 2007.

The amounts associated with pension obligations recognized in the consolidated balance sheet are as follows:

	31 December 2008		31 December 2007	
	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits
Present value of benefit obligations	(182,590)	(49,687)	(207,880)	(55,344)
Fair value of plan assets	257,046	-	583,221	-
	74,456	(49,687)	375,341	(55,344)
Unrecognised net actuarial losses/(gains)	169,526	(1,535)	123,749	8,745
Unrecognised past service costs	-	23,094	-	25,861
Unrecognised plan assets above the limit	-	-	(255,108)	-
Net balance asset / (liability)	243,982	(28,128)	243,982	(20,738)

The net pension assets of RR 243,982 related to benefits provided by the pension plan NPF Gazfund is included within other non-current assets of RR 411,837 in the consolidated balance sheet.

The amounts recognized in the consolidated statement of income are as follows:

	Year ended 31 December	
	2008	2007
Current service cost	8,766	10,829
Interest on obligation	17,053	15,475
Expected return on plan assets	(29,161)	(22,131)
Net actuarial losses recognized for the year	273,178	6,855
Past service cost	1,650	1,767
Effect of asset restriction	(255,108)	23,435
Total operating expenses included in staff costs	16,378	36,230

23 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The total amount of benefits paid for 2008 and 2007 were equal to RR 5,078 and RR 3,524, respectively.
Changes in the present value of the defined benefit obligations are the follows:

	31 December 2008		31 December 2007	
	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits
Opening defined benefit obligation	207,880	55,344	193,352	45,279
Service cost	5,979	2,787	7,704	3,252
Interest cost	13,504	3,549	12,580	3,076
Actuarial (gains)/losses	(40,620)	(11,717)	(2,490)	4,335
Benefits paid	(4,153)	(1,422)	(3,266)	(598)
Consolidation of OAO WGC-2 and OAO WGC-6 (see Note 33)	-	1,146	-	-
Closing defined benefit obligation	182,590	49,687	207,880	55,344

Changes in the plan assets are as follows:

	31 December 2008		31 December 2007	
	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits
Opening fair value of plan assets	583,221	-	-	-
Recognition of plan assets as at 31 March 2007	-	-	590,156	-
Expected return	29,161	-	22,131	-
Actuarial (losses)/gains	(358,806)	-	(33,514)	-
Contributions by employer	7,623	924	7,714	258
Benefits paid	(4,153)	(924)	(3,266)	(258)
Closing fair value of plan assets	257,046	-	583,221	-

The major categories of plan assets as a percentage of total plan assets are as follows:

	31 December 2008	31 December 2007
Equities	58%	79%
Other assets	42%	21%
	100%	100%

For the year ended 31 December 2008 actual return on plan assets was a loss of RR 329,644, caused by the change of the fair value of plan assets.

Funded status of the plan:

	31 December	
	2008	2007
Defined benefit obligation	(182,590)	(207,880)
Plan assets	257,046	583,221
Surplus	74,456	375,341

For 2008 and 2007, experience adjustments on plan assets amounted to RR 358,806 and RR 33,514 loss respectively, and experience adjustments on plan liabilities amounted to RR 124,592 and RR 43,259 loss respectively.

24 EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2008 and 2007 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Roubles.

Dividends

In 2008, OAO Gazprom accrued and paid dividends in the nominal amount of 2.66 Roubles per share for the year ended 31 December 2007. In 2007, OAO Gazprom accrued and paid dividends in the nominal amount of 2.54 Roubles per share for the year ended 31 December 2006.

Treasury shares

As of 31 December 2008 and 2007, subsidiaries of OAO Gazprom held 30 million and 66 million of the ordinary shares of OAO Gazprom, respectively. Shares of the Group held by the subsidiaries represent 0.1% and 0.3% of OAO Gazprom shares as of 31 December 2008 and 2007, respectively. The Group management controls the voting rights of these shares.

As of 31 December 2007 treasury shares include 50 million of Gazprom shares recognized under a put option written by the Group in November 2007 with a strike price of USD 16.38 per share. Financial liabilities recognized under this put option amounted to RR 18,234 as of 31 December 2007 and were included in “Other non-current liabilities” in the consolidated balance sheet. These treasury shares were held by Gazprombank Group which was deconsolidated from June 2008 (see Note 34).

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Rouble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29 “Financial Reporting in Hyperinflation Economies”. Also, retained earnings and other reserves include translation gains arising on the translation of the net assets of foreign subsidiaries, associated undertakings and jointly controlled entities in the amount of RR 44,545 and RR 25,325 as of 31 December 2008 and 2007, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of these assets to governmental authorities and this process may continue. Social assets with a net book value of RR 2,519 and RR 3,897 have been transferred to governmental authorities during the years ended 31 December 2008 and 2007, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with RAR. For 2008 year, the statutory profit of the parent company was RR 173,022. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

25 SALES

	Year ended 31 December	
	2008	2007
Gas sales (including excise tax and custom duties, net of VAT) to customers in:		
Russian Federation	479,387	399,452
Former Soviet Union (excluding Russian Federation)	381,902	273,550
Europe and other countries	<u>1,866,933</u>	<u>1,161,549</u>
Gross sales of gas	2,728,222	1,834,551
Excise tax	(81)	(96)
Customs duties	<u>(461,740)</u>	<u>(306,752)</u>
Net sales of gas	2,266,401	1,527,703
Sales of refined products to customers in:		
Russian Federation	378,182	300,046
Former Soviet Union (excluding Russian Federation)	44,980	42,181
Europe and other countries	<u>229,794</u>	<u>182,989</u>
Total sales of refined products	652,956	525,216
Sales of crude oil and gas condensate to customers in:		
Russian Federation	27,577	31,024
Former Soviet Union (excluding Russian Federation)	26,570	19,586
Europe and other countries	<u>160,808</u>	<u>117,148</u>
Sales of crude oil and gas condensate	214,955	167,758
Electric and heat energy sales:		
Russian Federation	131,965	35,251
Former Soviet Union (excluding Russian Federation)	2,370	1,773
Europe and other countries	<u>62,897</u>	<u>12,534</u>
Total electric and heat energy sales	197,232	49,558
Gas transportation sales:		
Russian Federation	70,080	41,252
Former Soviet Union (excluding Russian Federation)	605	488
Europe and other countries	<u>-</u>	<u>-</u>
Total gas transportation sales	70,685	41,740
Other revenues:		
Russian Federation	99,194	99,419
Former Soviet Union (excluding Russian Federation)	7,685	6,021
Europe and other countries	<u>9,852</u>	<u>5,830</u>
Total other revenue	<u>116,731</u>	<u>111,270</u>
Total sales	3,518,960	2,423,245

26 OPERATING EXPENSES

	Year ended 31 December	
	2008	2007
Purchased oil and gas	696,274	382,054
Taxes other than on income	258,971	229,771
Staff costs	240,607	248,894
Depreciation	195,016	183,577
Transit of gas, oil and refined products	185,269	152,093
Repairs and maintenance	152,234	118,058
Cost of goods for resale, including refined products	132,801	56,643
Materials	90,722	94,520
Electricity and heating expenses	48,691	44,901
Research and development	19,952	15,486
Social expenses	18,668	16,343
Rental expenses	15,178	13,568
Insurance expenses	14,637	12,950
Processing services	10,055	10,090
Transportation services	7,485	6,675
Other operating expenses	<u>73,130</u>	<u>128,136</u>
Total operating expenses	2,159,690	1,713,759

Staff costs include RR 16,378 and RR 36,230 of expenses associated with pension obligations (see Note 23) for the years ended 31 December 2008 and 2007, respectively.

Gas purchase expenses included within purchased oil and gas amounted to RR 538,680 and RR 299,465 for the years ended 31 December 2008 and 2007, respectively.

Taxes other than on income consist of:

	Year ended 31 December	
	2008	2007
Natural resources production tax	188,494	165,097
Property tax	27,781	21,638
Other taxes	<u>42,696</u>	<u>43,036</u>
	258,971	229,771

27 FINANCE INCOME AND EXPENSES

	Year ended 31 December	
	2008	2007
Exchange gains	118,746	82,936
Interest income	46,822	75,394
Gains on and extinguishment of restructured liabilities	<u>35</u>	<u>1,050</u>
Total finance income	165,603	159,380
	Year ended 31 December	
	2008	2007
Exchange losses	281,269	55,598
Interest expense	<u>59,910</u>	<u>76,975</u>
Total finance expenses	341,179	132,573

28 RECONCILIATION OF PROFIT, DISCLOSED IN CONSOLIDATED STATEMENT OF INCOME, PREPARED IN ACCORDANCE WITH RUSSIAN ACCOUNTING RULES (RAR) TO PROFIT DISCLOSED IN IFRS STATEMENT OF INCOME

	Year ended 31 December	
	2008	2007
RAR net profit for the period per consolidated statutory accounts	552,859	543,800
Effects of IFRS adjustments:		
Gain on NPF Gazfund deconsolidation	-	44,692
Reclassification of revaluation of RAO UES of Russia and other energy assets (including deferred tax effect of RR nil and RR 3,554, respectively)	49,411	(18,168)
Elimination of loss (gain) of OAO NOVATEK shares revaluation	80,768	(9,553)
Effect of profit tax rate change	52,230	-
Differences in depreciation	133,348	78,564
Reversal of goodwill depreciation	27,950	25,347
Loan interest capitalized	26,465	19,661
Impairment provision for property, plant and equipment	(51,031)	-
Impairment provision for associated undertakings and jointly controlled entities	(28,181)	-
Other impairment provisions and other provisions	(19,010)	(39,668)
Fair value adjustment for currency options	-	(1,320)
Write-off of research and development expenses capitalized for RAR purposes	(4,317)	(3,402)
Fair value adjustment on commodity contracts	(75)	(2,534)
(Loss)/Gain from change in fair value of call option	(50,738)	50,738
Other effects	1,701	6,828
IFRS profit for the year	771,380	694,985

29 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF OA O GAZPROM

Earnings per share have been calculated by dividing the profit, attributable to equity shareholders of OA O Gazprom by the weighted average number of shares outstanding during the period, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 24).

There were 23.4 billion weighted average shares outstanding for the years ended 31 December 2008 and 2007.

There are no dilutive financial instruments outstanding.

30 NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December	
	2008	2007
Profit before profit tax	1,031,632	924,204
Adjustments to profit before profit tax		
Depreciation	195,016	183,577
Charge for impairment provisions and other provisions	115,342	43,938
Net unrealised foreign exchange loss (gains)	162,523	(27,338)
Interest expense	59,910	76,975
Gains on and extinguishment of restructured liabilities	(35)	(1,050)
Losses on disposal of property, plant and equipment	1,858	9,988
Interest income	(46,822)	(75,394)
Gain on disposal of available-for-sale financial assets	(14,326)	(25,102)
Derivatives gain	(10,762)	(1,723)
Share of net loss (income) from associated undertakings and jointly controlled entities	<u>16,686</u>	<u>(24,234)</u>
Total effect of adjustments	479,390	159,637
Increase in long-term assets	(36,341)	(62,042)
(Decrease) increase in long-term liabilities	(3,246)	987
Gain from sale of interest in subsidiary	-	(50,853)
Loss (gain) from change in fair value of call option	50,738	(50,738)
Non-cash additions and disposals of property, plant and equipment and other long-term financial assets	(76,144)	(116,450)
Deconsolidation of NPF Gazfund	<u>-</u>	<u>(44,692)</u>
	1,446,029	760,053
Changes in working capital		
Increase in accounts receivable and prepayments	(245,820)	(21,463)
Increase in inventories	(42,047)	(27,277)
Decrease in other current assets	3,131	2,227
Increase in accounts payable and accrued charges, excluding interest, dividends and capital construction	67,551	70,884
Increase in taxes payable (other than profit tax)	80,772	66,873
Decrease (increase) in available-for-sale financial assets and financial assets held for trading	<u>15,707</u>	<u>(58,752)</u>
Total effect of working capital changes	(120,706)	32,492
Profit tax paid	<u>(308,772)</u>	<u>(194,037)</u>
Net cash provided by operating activities	1,016,551	598,508

Total taxes paid in cash for the years 2008 and 2007:

	Year ended 31 December	
	2008	2007
Customs duties	699,253	429,991
Profit tax	308,772	194,037
Natural resources production tax	196,815	163,596
VAT	76,273	68,988
Property tax	30,908	23,801
Unified social tax	29,304	31,546
Personal income tax	28,876	26,693
Excise	22,958	23,573
Other	<u>23,290</u>	<u>18,005</u>
Total taxes paid	1,416,449	980,230

31 SUBSIDIARY UNDERTAKINGS

Principal subsidiaries

Subsidiary undertaking	Location	% of share capital as of 31 December*	
		2008	2007
ZAO ArmRosgazprom	Armenia	76	53
ООО Arsenal**	Russia	-	100
ООО Aura-Media**	Russia	-	100
ООО Aviapredpriyatie Gazpromavia	Russia	100	100
ОАО Azot (Kemerovo)**	Russia	-	75
Benton Solutions Inc.**	Virgin Islands	-	100
ООО Burgaz	Russia	100	100
ОАО Daltransgaz	Russia	73	-
Dolby International Holdings Ltd.***	Virgin Islands	100	100
Ecofran Marketing Consulting and Communications Services Company Ltd.**	Cyprus	-	100
ООО Elion**	Russia	-	100
ООО Faktoring-Finance	Russia	90	90
Ferenco Investment Ltd.***	Cyprus	100	100
ZAO Gazenergoprombank	Russia	73	-
ООО Gazflot	Russia	100	100
ООО Gazoenergeticheskaya Companiya	Russia	100	100
ООО Gazprom dobycha Astrakhan	Russia	100	100
ООО Gazprom dobycha Krasnoyarsk (ООО Krasnoyarskgazdobycha)	Russia	100	100
ООО Gazprom dobycha Nadym	Russia	100	100
ООО Gazprom dobycha Noyabrsk	Russia	100	100
ООО Gazprom dobycha Orenburg	Russia	100	100
ООО Gazprom dobycha shelf	Russia	100	-
ООО Gazprom dobycha Urengoy	Russia	100	100
ООО Gazprom dobycha Yamburg	Russia	100	100
ООО Gazprom export	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Global LNG Ltd.	United Kingdom	100	-
ООО Gazprom invest Vostok	Russia	100	100
ZAO Gazprom invest Yug (ZAO Gazpromstroyengineering)	Russia	100	100
ООО Gazprom invest Zapad	Russia	100	100
ООО Gazprom investholding (ООО Gazprominvestholding)	Russia	100	100
ООО Gazprom komplektacya (ООО Gazkomplektimpex)	Russia	100	100
Gazprom Libyen Verwaltungs GmbH	Germany	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
ОАО Gazprom Neft	Russia	76	76
ZAO Gazprom neft Orenburg (ZAO Stimul)	Russia	100	100
Gazprom Neft Trading GmbH***	Austria	100	100
Gazprom Netherlands B.V.	Netherlands	100	100
ООО Gazprom Pererabotka	Russia	100	100
ООО Gazprom PKhG	Russia	100	100
ООО Gazprom podzemremont Orenburg (ООО Gazprom yugpodzemremont)	Russia	100	100
ООО Gazprom podzemremont Urengoy (ООО Gazprom severpodzemremont)	Russia	100	100
Gazprom Sakhalin Holding B.V.	Netherlands	100	100

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS– 31 DECEMBER 2008
(In millions of Russian Roubles)

31 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December*	
		2008	2007
ООО Газпром трансгаз Екатеринбург	Russia	100	100
ООО Газпром трансгаз Казань	Russia	100	100
ООО Газпром трансгаз Махачкала	Russia	100	100
ООО Газпром трансгаз Москва	Russia	100	100
ООО Газпром трансгаз Нижний Новгород	Russia	100	100
ООО Газпром трансгаз Самара	Russia	100	100
ООО Газпром трансгаз Саратов	Russia	100	100
ООО Газпром трансгаз Сургут	Russia	100	100
ООО Газпром трансгаз Тchaikovsky	Russia	100	100
ООО Газпром трансгаз Томск	Russia	100	100
ООО Газпром трансгаз Уфа	Russia	100	100
ООО Газпром трансгаз Ухта	Russia	100	100
ООО Газпром трансгаз Волгоград	Russia	100	100
ООО Газпром трансгаз Югорск	Russia	100	100
ООО Газпром трансгаз Кубань	Russia	100	100
ООО Газпром трансгаз Ст. Петербург	Russia	100	100
ООО Газпром трансгаз Ставрополь			
(ООО Кавказтрансгаз)	Russia	100	100
ООО Газпром тентремонт	Russia	100	-
ООО Газпромбанк-Инвест**	Russia	-	99
АБ ГПБ-Ипотека (ЗАО)**	Russia	-	99
ОАО Газпром-Медиа**	Russia	-	100
ООО Газпром-Медиа Holding**	Russia	-	100
ООО Газпромэнерго	Russia	100	100
ООО Газпромнефть-Центр (ООО Сибнефть-АЗС Сервис)***	Russia	100	100
ООО Газпромнефтьфинанс***	Russia	100	100
ООО Газпромнефть-Хантос***	Russia	100	100
ЗАО Газпромнефть-Кузбасс			
(ЗАО Кузбасснефтепродукт)***	Russia	100	100
ОАО Газпромнефть-Ноябрьскнефтегаз			
(ОАО Сибнефть-Ноябрьскнефтегаз)***	Russia	100	100
ОАО Газпромнефть-Омский НПЗ			
(ОАО Сибнефть-Омский НПЗ)***	Russia	100	100
ОАО Газпромнефть-Омск (ОАО Сибнефть- Омскнефтепродукт)***	Russia	100	100
ЗАО Газпромнефть-Северо-Запад			
(ЗАО Сибнефть-Северо-Запад)***	Russia	100	100
ООО Газпромнефть-Восток***	Russia	100	100
ООО ГазпромPurInvest	Russia	100	100
ОАО Газпромregiongaz	Russia	100	100
ООО Газпромtrans	Russia	100	100
ОАО Газпромтрубинвест	Russia	99	99
ООО Газторгpromstroy	Russia	100	100
ООО Геоурсы	Russia	100	-
ЗАО Геросгаз	Russia	51	51
Gregory Trading S.A.***	Virgin Islands	100	100
ООО Джестер**	Russia	-	100
Jones Resources Ltd.***	Virgin Islands	100	100
ЗАО Каунаскайская электростанция	Lithuania	99	99
ООО Коммерческие Инвестиции**	Russia	-	100
ОАО Краснодаргазстрой	Russia	-	51
ОАО Красноярскгазпром	Russia	75	75
ООО Кубангазпром	Russia	100	100

31 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December*	
		2008	2007
Leadville Investments Ltd.**	Cyprus	-	100
ОАО ЛЕНГАЗСПЕКТРОЙ	Russia	-	63
ООО МЕЗХРЕГИОНГАЗ	Russia	100	100
ОАО МИНЕРАЛЬНЫЕ УДОБРЕНИЯ**	Russia	-	51
ОАО МОСЭНЕРГО	Russia	53	53
ЗАО НЕФТЕХИМ-ИНВЕСТ**	Russia	-	100
ООО НК СИБНЕФТ-ЮГРА***	Russia	99	99
ООО НОВОУРЕНГОЙСКИЙ ГЦ	Russia	100	100
ОАО НТВ-ПЛЮС**	Russia	-	100
ОАО ОБШЕСТВЕННО-ДЕЛОВОЙ ЦЕНТР ОКХТА***	Russia	77	84
ЗАО ПУРГАЗ	Russia	51	51
ООО РЕГИОНАЛЬНАЯ ФИНАНСОВАЯ КОМПАНИЯ**	Russia	-	100
ОАО РЕГИОНГАЗХОЛДИНГ	Russia	56	56
Richard Enterprises S.A.***	Virgin Islands	100	100
ЗАО РОССШЕЛФ	Russia	57	57
ЗАО РСШ-ЦЕНТР	Russia	99	99
ОАО СЕВЕРНЕФТЕГАЗПРОМ****	Russia	75	75
ООО СЕВМОРНЕФТЕГАЗ	Russia	100	100
Sib Oil Trade Ltd.***	Virgin Islands	100	100
ООО СИБНЕФТ-ЧУКОТКА***	Russia	100	100
ОАО АК СИБУР**	Russia	-	100
ОАО СИБУР ХОЛДИНГ**	Russia	-	74
ОАО СИБУР-МИНЕРАЛЬНЫЕ УДОБРЕНИЯ**	Russia	-	100
ЗАО СИБУР-МОТОРС**	Russia	-	100
ОАО СИБУР-НЕФТЕХИМ**	Russia	-	100
ОАО СИБУР-РУССКИЕ ШИНЬ**	Russia	-	100
ОАО СИБУР-ТЮМЕН**	Russia	-	100
ОАО СИБУР-ТЮМЕНГАЗ**	Russia	-	100
ОАО СОБИНБАНК	Russia	100	-
ЗАО СПЕЦИСТЕРНИ**	Russia	-	100
ОАО СПЕТСГАЗАВТОТРАНС	Russia	51	51
ОАО ТЕЛЕКОМПАНИЯ НТВ**	Russia	-	100
ОАО ТОМСКГАЗПРОМ	Russia	100	100
ООО ТОМСКНЕФТЕХИМ**	Russia	-	100
ОАО ТСЕНТРЕНЕРГОГАЗ	Russia	62	62
ОАО ТСЕНТРГАЗ	Russia	100	100
ООО ВНИИГАЗ	Russia	100	100
ОАО ВОСТОКГАЗПРОМ	Russia	99	99
ОАО WGC-2*****	Russia	57	-
ОАО WGC-6*****	Russia	60	-
ЗАО ЯМАЛГАЗИНВЕСТ	Russia	100	100
ОАО ЯРОСЛАВСКИЙ ШИННИЙ ЗАВОД**	Russia	-	88
ООО ЮГРАГАЗПЕРЕРАБОТКА**	Russia	-	51
ООО ЗАПОЛЯРНЕФТ***	Russia	100	100
ОАО ЗАПСИБГАЗПРОМ	Russia	77	77

31 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December*	
		2008	2007
Zarubezhgaz Management und BeteiligungsGesellschaft mbH (ZMB GmbH)	Germany	100	100
OA O Zavod Benzol**	Russia	-	100
ZGG Cayman Holding Ltd.	Cayman Islands	100	100
ZGG Cayman Ltd.	Cayman Islands	100	100
ZMB (Schweiz) AG	Switzerland	100	100

* Cumulative share of Group companies in charter capital of investments

** Subsidiaries of OA O Gazprombank, OA O Sibur-Holding and Gazprom-Media Group (deconsolidated since June 2008, Note 34)

*** Subsidiaries of OA O Gazprom neft

**** Group's voting shares

***** Controlling interest acquired in 2008 (see Note 33)

32 MINORITY INTEREST

	Year ended 31 December	
	2008	2007
Minority interest at the beginning of the year	362,308	161,362
Minority interest share of net profit of subsidiary undertakings	28,452	36,947
Gazprombank Group deconsolidation (see Note 34)	(148,035)	-
Dividends	(6,227)	(9,320)
Translation difference	1,120	-
Minority interest as a result of acquisitions	70,366	173,319
Minority interest at the end of the year	307,984	362,308

33 ACQUISITION OF THE CONTROLLING INTEREST IN OA O WGC-2 and OA O WGC-6

As of 1 July 2008, the Group completed the exchange of its ownership interest in RAO UES of Russia for ownership interests in certain companies, including controlling interests in OA O WGC-2 and OA O WGC-6 and minor interest in other power entities. The Group's controlling interest of 57.3% in OA O WGC-2 and 60.1% in OA O WGC-6 have been accumulated through the payment of cash of RR 16 billion for 12.2% interest in OA O WGC-2 in October 2007 and RR 21 billion for 17.1% interest in OA O WGC-6 in December 2007, respectively and the exchange of RAO UES of Russia shares with a fair value of RR 53 billion in July 2008. The fair value of the RAO UES of Russia shares exchanged for the OA O WGC-2 and OA O WGC-6 shares as of 1 July 2008 was determined by reference to the quoted market prices of the OA O WGC-2 and OA O WGC-6 shares received on 1 July 2008, the date the Group obtained control over OA O WGC-2 and OA O WGC-6.

The Group accounted for the interest owned prior to July 2008 in OA O WGC-2 and OA O WGC-6 as available-for-sale financial assets.

In accordance with IFRS 3 "Business Combinations", the Group recognized the acquired assets and liabilities based upon their fair values. In these financial statements, management revised the preliminary assessment disclosed in interim condensed financial information for the nine months, ended 30 September 2008. Revisions made to the preliminary assessment applied in interim financial information were reflected as of the acquisition date. The Group does not anticipate any material revisions to this revised assessment.

The total purchase consideration primarily includes the total cash paid of RR 37 billion and the fair value of the shares exchanged of RR 53 billion.

The carrying amounts before the acquisition date and recognized assets acquired and liabilities assumed as of the acquisition date are as follows:

ACQUISITION OF THE CONTROLLING INTEREST IN OA O WGC-2 and OA O WGC-6 (continued)

	OA O WGC-2 and OA O WGC-6	
	Book value 01.07.2008	Attributable fair value
Cash and cash equivalents	1,556	1,556
Accounts receivable and prepayments	4,835	4,835
Inventories	6,434	6,434
Other current assets	<u>13,969</u>	<u>13,969</u>
Current assets	26,794	26,794
Property, plant and equipment	46,631	140,221
Long-term accounts receivable and prepayments	26,212	26,212
Other non-current assets	<u>3,952</u>	<u>3,952</u>
Non-current assets	<u>76,795</u>	<u>170,385</u>
Total assets	103,589	197,179
Accounts payable and accrued charges	<u>11,048</u>	<u>11,048</u>
Current liabilities	11,048	11,048
Long-term borrowings	7,756	7,756
Deferred tax liabilities	6,283	28,745
Other non-current liabilities	<u>1,029</u>	<u>1,029</u>
Non-current liabilities	<u>15,068</u>	<u>37,530</u>
Total liabilities	26,116	48,578
Net assets at control acquisition date	77,473	148,601
Fair value of net assets at acquisition date		148,601
Fair value of the Group's interest		86,970
Purchase consideration		<u>89,577</u>
Goodwill		2,607

The acquired entities contributed revenue of RR 41,248 and loss of RR 35,244 to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, the Group's revenue and profit for the year ended 31 December 2008 would have been RR 3,550,823 and RR 760,499, respectively.

The Group performed impairment testing of assets and liabilities of OA O WGC-2 and OA O WGC-6 as of December 31, 2008 and recorded an impairment loss of RR 44,119 for certain non-financial assets including goodwill of RR 2,607. The impairment loss was primarily due to the effects of fourth quarter 2008 revised projections indicating ownward revisions of projected sales volumes and increased discount rates (see Note 35).

34 DECONSOLIDATION OF GAZPROMBANK GROUP

As discussed in Note 4 the Group lost the ability to control the financial and operating policies of Gazprombank Group on 24 June 2008. At that date the bank and its subsidiaries were deconsolidated from the financial statements of the Group and the deconsolidation has resulted in the decrease/(increase) in the following line items of the consolidated balance sheet:

Current assets	
Cash and cash equivalents	47,242
Restricted cash	14,866
Short-term financial assets	88,277
Accounts receivable and prepayments	252,017
Inventories	21,432
VAT recoverable	8,763
Other current assets	<u>32,602</u>
	465,199
Non-current assets	
Property, plant and equipment	72,491
Investments in associated undertakings and jointly controlled entities	46,142
Long-term accounts receivable and prepayments	221,041
Available-for-sale long-term financial assets	20,437
Other non-current assets	<u>15,080</u>
	<u>375,191</u>
Total assets	840,390
Liabilities and equity	
Current liabilities	
Accounts payable and accrued charges	221,351
Current profit tax payable	195
Other taxes payable	6,100
Short-term borrowings and current portion of long-term borrowings	246,140
Short-term promissory notes payable	<u>25,007</u>
	498,793
Non-current liabilities	
Long-term borrowings	164,985
Provisions for liabilities and charges	1,421
Deferred tax liabilities	(5,910)
Other non-current liabilities	<u>18,415</u>
	<u>178,911</u>
Total liabilities	677,704
Equity	
Treasury shares	(26,751)
Retained earnings and other reserves	<u>(26,751)</u>
	<u>148,035</u>
Minority interest	<u>148,035</u>
Total equity	<u>121,284</u>
Total liabilities and equity	798,988
Recognition of investment in Gazprombank Group as investment in associated undertaking	41,402

The deconsolidation of Gazprombank Group did not have a material impact on the consolidated statement of income for the year ended 31 December 2008.

35 IMPAIRMENT AND OTHER PROVISIONS

The Group conducted an impairment test of its property plant and equipment, goodwill when applicable, investments in associated undertakings and other assets when there were indicators that these assets may be impaired. The recoverable amount used in the impairment tests has been determined on the basis of the projected cash flows and the value in use of such asset or cash-generating units.

For non financial assets, the Group conducted an impairment test of its cash-generating units, for which the values in use have been calculated as the present values of projected future cash flows discounted by the Group's weighted average cost of capital, as adjusted, where applicable, to take into account any specific risks of business operations related to the cash-generating units. The Group used discount rates ranging from 10 to 17%. The cash flow projections cover periods commensurate with the production cycles and expected lives of the respective assets. The Group used either steady or declining growth rates to extrapolate cash flows beyond the period, for which the Group usually prepares its budget. Based on the results of this test the Group recognized an impairment loss of RR 51,031 for power generating assets, including goodwill on the acquisition of OAO WGC-2 and OAO WGC-6 (see Note 33). The impairments were primarily triggered by the increase in discount rates, projected reduction in electricity consumption and expected oil and electricity prices.

Included in the impairment and other provisions are provisions for short-term and long-term accounts receivable in the amount of RR 42,057 and RR 1,348 for the years, ended December 31, 2008 and 2007 respectively and impairment provision for other investments in the amount of RR 2,726 and RR 1,422 for the years, ended December 31, 2008 and 2007.

For associated undertakings, where there was an indication that the carrying value of investments in associated undertakings might not be recoverable the Group conducted an impairment test of such investments as at December 31, 2008. The total impairment loss, included in share of net income (loss) of associated undertakings and jointly controlled entities of RR 28,181 related primarily due to projected decrease in crude oil and electricity consumption and prices and the increase in discount rates.

36 RELATED PARTIES

For the purpose of this consolidated financial information, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 "Related Party Disclosures". Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as of 31 December 2008 are detailed below.

Government

The Government of the Russian Federation is the ultimate controlling party of OAO Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50% in OAO Gazprom.

As of 31 December 2008 38.373% of OAO Gazprom issued shares were directly owned by the Government. Another 11.63% were owned by Government controlled entities. The Government does not prepare financial statements for public use. Following the General Meeting of Shareholders in June 2008, the 11 seats on the Board of Directors include six State representatives, three management representatives and two independent directors. Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

As a condition of privatisation in 1992, the Government imposed an obligation on the Group to provide an uninterrupted supply of gas to customers in the Russian Federation at government controlled prices.

Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities under Government control. Prices of natural gas sales and electricity tariffs in Russia are regulated by the Federal Tariffs Service ("FTS"). Bank loans with related parties are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

As of and for the years ended 31 December 2008 and 2007, respectively, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

OAO GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS– 31 DECEMBER 2008
(In millions of Russian Roubles)

36
Note **RELATED PARTIES (continued)**

		As of 31 December 2008		Year ended 31 December 2008	
		Assets	Liabilities	Revenues	Expenses
	Transactions and balances with the Government				
	Current profit tax	30,518	6,774	-	307,094
	Unified social tax	558	1,075	-	30,460
	VAT recoverable/payable	199,990	20,134	-	-
	Custom duties	60,841	-	-	-
18	Other taxes	2,565	29,537	-	258,971
	Transactions and balances with other parties under control of the Government				
	Gas sales	-	-	95,799	-
	Electricity and heating sales	-	-	78,151	-
	Other services sales	-	-	1,960	-
	Accounts receivable	4,211	-	-	-
	Oil transportation expenses	-	-	-	62,975
	Accounts payable	-	1,955	-	-
	Loans	-	14,610	-	-
	Interest income/expense	-	-	854	1,050
	Short-term financial assets	1,176	-	-	-
	Available-for-sale long-term financial assets	18,319	-	-	-

		As of 31 December 2007		Year ended 31 December 2007	
		Assets	Liabilities	Revenues	Expenses
	Transactions and balances with the Government				
	Current profit tax	9,378	23,033	-	218,266
	Unified social tax	583	1,319	-	31,206
	VAT recoverable/payable	190,560	17,000	-	-
	Custom duties	20,323	-	-	-
18	Other taxes	4,311	32,389	-	229,771
	Transactions and balances with other parties under control of the Government				
	Gas sales	-	-	186,705	-
	Electricity sales	-	-	22,296	-
	Other sales	-	-	975	-
	Accounts receivable	44,373	-	-	-
	Oil transportation expenses	-	-	-	44,542
	Accounts payable	-	21,328	-	-
	Loans	-	28,007	-	-
	Interest income/expense	-	-	1,262	1,413
	Short-term financial assets	15,030	-	-	-
	Investments in associated undertakings and jointly controlled entities	-	-	-	89
	Available-for-sale long-term financial assets	159,211	-	-	-

36 RELATED PARTIES (continued)

Gas sales and respective accounts receivable, oil transportation expenses and respective accounts payable included in the table above are related to major State controlled utility companies.

In the normal course of business the Group incurs electricity and heating expenses (see Note 26). A part of these expenses relates to purchases from the entities under Government control. Due to specifics of electricity market in Russian Federation, these purchases can not be accurately separated from the purchases from private companies.

See consolidated statement of changes in equity for returns of social assets to governmental authorities during years ended 31 December 2008 and 2007. See Note 12 for net book values as of December 2008 and 2007 of social assets vested to the Group at privatisation.

See Note 37 for financial guarantees issued by the Group to the associated undertakings and jointly controlled entities.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RR 2,056 and RR 1,697 for the years ended 31 December 2008 and 2007, respectively. Such amounts include personal income tax and are net of unified social tax. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and a one-time payment from the Group at their retirement date. The employees of the majority of Group companies are eligible for such benefits.

The Group provided medical insurance and liability insurance for key management personnel. Voluntary medical insurance was RR 1 and RR 1 and liability insurance was RR 2 and nil for the years ended 31 December 2008 and 2007, respectively.

36 RELATED PARTIES (continued)

Associated undertakings and jointly controlled entities

For the years ended 31 December 2008 and 2007 the Group had the following significant transactions with associated undertakings and jointly controlled entities:

	Year ended 31 December	
	2008	2007
Gas sales	Revenues	
RosUkrEnergo AG	230,093	157,438
Wintershall Erdgas Handelshaus GmbH & Co.KG	115,317	67,656
ZAO Panrusgaz	74,878	43,179
OAO Beltransgaz**	60,509	-
Wintershall Gas GmbH & Co. KG	56,092	41,251
AO Gazum	26,822	17,001
Wintershall Erdgas Handelshaus Zug AG	25,740	19,031
Promgaz SPA	14,864	8,003
AO Overgaz Inc.	14,088	8,101
GWH – Gaz und Warenhandels GmbH	10,336	6,082
AO Lietuvos Dujos	9,039	5,389
AO Moldovagaz	8,999	6,509
AO Latvijas Gaze	6,533	3,775
AO Turusgaz	5,733	3,100
OAO TGC-1**	5,492	-
ZAO Gazprom YRGM Trading	5,119	307
OAO Mosenergo*	-	19,566
Gas transportation sales		
RosUkrEnergo AG	23,455	11,278
OAO NOVATEK	11,262	8,248
ZAO Gazprom YRGM Trading	7,217	486
Crude oil and refined product sales:		
OAO NGK Slavneft and its subsidiaries	15,137	14,195
Gas refining services sales:		
TOO KazRosGaz	3,735	3,303
Purchased gas	Expenses	
RosUkrEnergo AG	39,341	29,880
ZAO Gazprom YRGM Trading	23,901	1,425
TOO KazRosGaz	17,265	13,246
OAO NOVATEK	5,505	3,953
Gas transportation purchases		
SGT EuRoPol GAZ S.A.	12,206	11,081
OAO Beltransgaz**	11,864	-
Blue Stream Pipeline Company	7,513	7,300
Crude oil and refined product purchases		
OAO NGK Slavneft and its subsidiaries	79,511	64,198
OAO Tomskneft VNK and its subsidiaries**	32,958	-
Processing services purchases		
OAO NGK Slavneft and its subsidiaries	5,816	5,013

* OAO Mosenergo is consolidated from the moment of acquisition of controlling interest in May 2007.

** Financial information reported from the date of investment made.

Gas is sold to associated undertakings in the Russian Federation mainly at the rates established by the FTS. Gas is sold outside the Russian Federation (except for that sold to RosUkrEnergo AG) under long-term contracts based on world commodity prices.

OAo GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS– 31 DECEMBER 2008
(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

As of 31 December 2008 and 2007 the Group had the following significant balances with associated undertakings and jointly controlled entities:

	As of 31 December 2008		As of 31 December 2007	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
RosUkrEnergo AG	76,514	-	57,446	-
Wintershall Gas GmbH & Co. KG	13,888	-	14,833	-
Wintershall Erdgas Handelshaus Zug AG	11,925	-	12,439	-
ZAO Panrusgaz	11,341	-	6,583	-
OAo Beltransgaz	8,664	-	-	-
AO Gazum	4,322	-	2,868	-
OAo NGK Slavneft and its subsidiaries	4,313	-	2,516	-
AO Moldovagaz*	3,274	-	1,260	-
OAo Salavatnefteorgsintez	2,493	-	-	-
Wintershall Erdgas Handelshaus GmbH & Co.KG	1,783	-	4,078	-
OAo Sibur Holding and its subsidiaries	1,589	-	-	-
SGT EuRoPol GAZ S.A.	1,295	-	1,105	-
ZAO Gazprom YRGM Trading	2,196	-	-	-
OAo Gazprombank	1,077	-	-	-
Cash balances in associated undertakings:				
OAo Gazprombank	161,255	-	-	-
Long-term accounts receivable and prepayments				
Wintershall Gas GmbH & Co. KG	11,721	-	10,163	-
OAo Sibur Holding and its subsidiaries	3,587	-	-	-
SGT EuRoPol GAZ S.A.	3,555	-	3,955	-
RosUkrEnergo AG	-	-	6,947	-
Long term promissory notes:				
OAo Gazprombank	2,536	-	-	-
Short-term accounts payable				
Wintershall Gas GmbH & Co. KG	-	9,239	-	3,245
RosUkrEnergo AG	-	9,176	-	2,001
ZAO Gazprom YRGM Trading	-	4,591	-	-
SGT EuRoPol GAZ S.A.	-	4,470	-	2,456
OAo Sibur Holding and its subsidiaries	-	2,756	-	-
TOO KazRosGaz	-	1,994	-	1,787
OAo NGK Slavneft and its subsidiaries	-	1,580	-	4,242
OAo Beltransgaz	-	1,351	-	-
OAo NOVATEK	-	1,111	-	375
Long-term accounts payable:				
OAo Sibur Holding and subsidiaries	-	3,627	-	-
ST loans from associated undertakings:				
OAo Gazprombank	-	7,875	-	-
OAo Tomskneft VNK and its subsidiaries	-	8,478	-	-
Wintershall Erdgas Handelshaus GmbH & Co.KG	-	2,344	-	1,770
LT Loans from associated undertaking:				
OAo Gazprombank	-	9,513	-	-

* Net of impairment provision on accounts receivable in the amount of RR 37,125 and RR 27,821 as of 31 December 2008 and 2007, respectively.

Investments in associated undertakings and jointly controlled entities are disclosed in Note 12.

See Note 37 for financial guarantees issued by the Group on behalf of associated undertakings and jointly controlled entities.

37 COMMITMENTS AND CONTINGENCIES

Financial guarantees

	31 December 2008	31 December 2007
Outstanding guarantees issued on behalf of:		
BSPC	24,092	24,352
MRK Energy DMCC	6,959	-
EM Interfinance Limited	5,823	-
Devere Capital International Limited	5,691	-
ZAO Achimgaz	4,961	4,591
Blackrock Capital Investments Limited	4,934	-
ОАО Group E4	3,562	-
Nord Stream AG	2,536	-
Gaztransit	1,294	1,346
DSL Assets International Limited	888	-
United Energy Investments Limited	887	-
Gazprom Libya B.V.	-	4,467
Other	<u>25,701</u>	<u>59,484</u>
	87,328	94,240

Historically counterparties fulfilled their contractual obligations. The maximum exposure to credit risk in relation to financial guarantees is RR 87,328 and RR 94,240 as of 31 December 2008 and 2007, respectively.

Included in financial guarantees are amounts denominated in USD of USD 1,587 million and USD 1,348 million as of 31 December 2008 and 31 December 2007, respectively.

In July 2005 Blue Stream Pipeline Company B.V. (BSPC) refinanced some of the existing liabilities, guaranteed by the Group, by means of repayment of the liabilities to a group of Italian and Japanese banks. For the purpose of this transaction loans in the amount of USD 1,185.3 million were received from Gazstream S.A. The Group guaranteed the above loans. As of 31 December 2008 and 31 December 2007, outstanding amounts of these loans were RR 23,052 (USD 785 million) and RR 23,652 (USD 964 million), respectively, which were guaranteed by the Group, pursuant to its obligations.

As of 31 December 2008 and 31 December 2007, BSPC also borrowed RR 1,040 (USD 35 million) and RR 700 (USD 29 million) of credit facilities, provided by Depfa Investment Bank Ltd., which were guaranteed by the Group.

In 2007 the Group provided a guarantee to Wintershall Vermögens-Verwaltungsgesellschaft mbH on behalf of ZAO Achimgaz as a security of loans received and used for additional financing of the pilot implementation of the project on the development of Achimsky deposits of the Urengoy field. The Group's liability with respect to loans is limited by 50% in accordance with the ownership interest in ZAO Achimgaz. As of 31 December 2008 and 31 December 2007 the above guarantee amounted to RR 4,961 (Euro 120 million) and RR 4,591 (Euro 128 million), respectively.

In January 2008 the Group provided a guarantee to Europipe GmbH, supplier of large-diameter steel pipes, on behalf of Nord Stream AG related to pipe supply contract for construction of Nord Stream pipeline. As of 31 December 2008, the above guarantee amounted to RR 2,536 (Euro 61 million).

In April 2008 the Group provided a guarantee to Credit Suisse International and National Reserve bank (ОАО) on behalf of MRK Energy DMCC related to loan received by MRK Energy DMCC. The purpose of the loan is financing of construction of gas pipeline "Kudarsky pereval – Tskhinval" (South Ossetia). As of 31 December 2008 the outstanding amount of this guarantee was RR 6,959.

In 2006 the Group guaranteed loans issued by five financing entities (Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited). These companies were special purpose entities of Gazprombank Group, which bore risks, associated with the loans. Following the deconsolidation of Gazprombank Group and because the Group remains a guarantor, the guarantees provided by the Group are reported as guarantees to third parties. The guarantees amounted to RR 18,223 (USD 620 million) as of 31 December 2008.

37 COMMITMENTS AND CONTINGENCIES (continued)

In May 2008 the Group provided a guarantee to OAO Bank of Moscow on behalf of OAO Group E4 as a security of loans for obligations under contracts for delivering of power units. As of 31 December 2008, the outstanding amount of this guarantee was RR 3,562 (Euro 86 million).

Other guarantees of the Group included guarantees, issued by OAO Sobinbank to third parties in the amount of RR 8,267 as of 31 December 2008.

Other guarantees of the Group included guarantees mainly issued by OAO Gazprombank to third parties in the amount of RR 54,122 as of 31 December 2007. In January 2007, OAO Gazprombank provided guarantees to OAO Sberbank on behalf of OAO Sibneftegaz. As of 31 December 2007, the outstanding amount of these guarantees was RR 5,934.

In August 2007, OAO Gazprombank provided a guarantee to OAO LUKOIL-Nizhegorodnefteorgsintez on behalf of OAO Lukoil-NORSI-Invest. As of 31 December 2007, the outstanding amount was RR 5,308.

In 2007, OAO Gazprombank provided a guarantee to former owners of OAO Salavatnefteorgsyntez shares on behalf of ZAO Lider with respect to its purchase of interest in OAO Salavatnefteorgsyntez. As of 31 December 2007, the total outstanding amount was RR 16,525.

Capital commitments

In December 2008 the Board of Directors approved a RR 920 billion investment programme for 2009. Currently the company is reviewing the investment program.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2008 no loss is expected to result from these long-term commitments.

38 OPERATING RISKS

Operating environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. Due to the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings.

Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation ("CBRF") increased from RR 25.37 as of 1 October 2008 to RR 29.38 as of 31 December 2008.

The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price of Urals oil decreased from USD 91.15 as of 29 September 2008 to USD 41.83 as of 31 December 2008.

The future economic direction of the Russian Federation is largely dependent upon the world economic situation, effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. Additionally, the Group is subject to various environmental laws regarding handling, storage, and disposal of certain products and is subject to regulation by various governmental authorities. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the results of operations or financial position of the Group.

38 OPERATING RISKS (continued)

Taxation

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments.

Management believes that its interpretation of the relevant legislation as of 31 December 2008 is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

Group changes

The Group is continuing to be subject to reform initiatives in the Russian Federation and in some of its export markets. The future direction and effects of any reforms are the subject of political considerations. Potential reforms in the structure of the Group, tariff setting policies, and other government initiatives could each have a significant, but undeterminable, effect on enterprises operating in the Group.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reliably estimated, but could be material. In the current enforcement climate under existing legislation, the Group management believes that there are no significant liabilities for environmental damage, other than amounts that have been accrued in the consolidated financial statements.

Social commitments

The Group significantly contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees in the areas of its production operations mainly in the northern regions of Russian Federation, including contributions toward the construction, development and maintenance of housing, hospitals, transport services, recreation and other social needs.

Financial crisis and economic downturn

The ongoing global financial crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial market, have also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. In this context, in 2008 the Group has also obtained shares in certain Russian banks.

The full extent of the impact of the ongoing financial crisis is difficult to foresee and the Group remains exposed to adverse changes that would result from the crisis. The availability of external funding in financial markets has significantly reduced since August 2007. Such circumstances affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions (see Note 40). The debtors of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their outstanding payables.

Deteriorating operating conditions for debtors have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets (see Note 35). Management has reflected their best estimates of expected future cash flows in their impairment assessments.

The net pension assets included into other non-current assets are also exposed to the decline in the market price of certain investments made by NPF Gazfund (see Note 23).

Management is unable to estimate reliably the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

The Group is exposed to deteriorating economic conditions resulting from general economic downturn, decline in demand for certain commodities and decline in oil prices. These new market conditions have an impact on medium term cash flow forecast and assessment of potential impairment of financial and non-financial assets. As of 31 December 2008 management has updated the Group's medium and long-term cash-flow forecasts and impairment assessment (see Note 35).

39 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

Risks are managed centrally and to some extent at the level of subsidiaries in accordance with Group policies.

Market risk

Market risk is a risk that changes in market prices, such as foreign currency exchange rates, interest rates, commodity prices and prices of marketable securities, will affect the Group's financial results or the value of its holdings of financial instruments.

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The carrying amounts of the Group's financial instruments are denominated in the following currencies:

Notes	Russian Rouble	US dollar	Euro	Other	Total	
As of 31 December 2008						
Financial assets						
Current						
	Cash and cash equivalents	184,344	114,319	39,533	5,637	343,833
	Short-term financial assets	23,365	-	83	-	23,448
10	Trade and other accounts receivable	185,075	207,100	83,346	31,775	507,296
Non-current						
14	Long-term accounts receivable	136,643	10,413	310	-	147,366
	Available for sale long-term financial assets	<u>43,210</u>	<u>-</u>	<u>4,976</u>	<u>-</u>	<u>48,186</u>
	Total financial assets	572,637	331,832	128,248	37,412	1,070,129
Financial liabilities						
Current						
17	Accounts payable and accrued charges	308,564	85,137	26,091	21,712	441,504
	Short-term borrowings and current portion of long-term borrowings	111,257	273,429	47,011	943	432,640
	Short-term promissory notes payable	8,052	-	-	-	8,052
Non-current						
	Long-term borrowings	74,548	496,303	352,282	97	923,230
	Long-term promissory notes payable	<u>1,718</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,718</u>
	Total financial liabilities	504,139	854,869	425,384	22,752	1,807,144

39 FINANCIAL RISK FACTORS (continued)

Notes	Russian Rouble	US dollar	Euro	Other	Total	
As of 31 December 2007						
Financial assets						
Current						
	Cash and cash equivalents	161,507	63,892	46,147	7,563	279,109
	Short-term financial assets	111,103	1,790	199	819	113,911
10	Trade and other accounts receivable	365,938	124,598	76,817	10,002	577,355
Non-current						
14	Long-term accounts receivable	253,951	14,490	1,989	-	270,430
	Available for sale long-term financial assets	246,828	6,000	1,853	1,529	256,210
	Total financial assets	1,139,327	210,770	127,005	19,913	1,497,015
Financial liabilities						
Current						
17	Accounts payable and accrued charges	378,802	44,857	34,668	14,292	472,619
	Short-term borrowings and current portion of long-term borrowings	158,704	313,520	30,460	1,386	504,070
	Short-term promissory notes payable	21,455	-	-	-	21,455
Non-current						
	Long-term borrowings	135,773	563,070	282,565	-	981,408
	Long-term promissory notes payable	3,555	-	-	-	3,555
	Total financial liabilities	698,289	921,447	347,693	15,678	1,983,107

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in selected foreign currencies.

As of 31 December 2008, if the Russian Rouble had weakened by 30% against the US dollar with all other variables held constant, profit before tax would have been lower by RR 155,194, mainly as a result of foreign exchange gains on translation of US dollar-denominated trade receivables and foreign exchange losses on translation of US dollar-denominated borrowings. As of 31 December 2007, if the Russian Rouble had weakened by 10% against the US dollar with all other variables held constant, profit before tax would have been lower by RR 71,668. Profit is more sensitive to movement in RR/US dollar exchange rates in 2008 than in 2007 because of the increased amount of the US dollar denominated borrowings. The effect of a corresponding strengthening of the Russian Rouble against the US dollar is approximately equal and opposite.

As of 31 December 2008, if the Russian Rouble had weakened by 30% against Euro with all other variables held constant, profit before tax would have been lower by RR 90,552 mainly as a result of foreign exchange gains on translation of euro-denominated trade receivables and foreign exchange losses on translation of euro-denominated borrowings. As of 31 December 2007, if the Russian Rouble had weakened by 5% against Euro with all other variables held constant, profit before tax would have been lower by RR 11,127. The effect of a corresponding strengthening of the Russian Rouble against Euro is approximately equal and opposite.

39 FINANCIAL RISK FACTORS (continued)

(b) Cash flow and fair value interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group's interest rate risk primarily arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The table below summarises the balance between long-term borrowings at fixed and at variable interest rates:

Long-term borrowings	31 December	
	2008	2007
At fixed rate	914,937	869,194
At variable rate	247,312	386,357
Total	1,162,249	1,255,551

The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether obtaining financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

During 2008 and 2007, the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

At 31 December 2008, if interest rates on US dollar and Euro denominated borrowings at these dates had been 2.0% higher with all other variables held constant, profit before tax would have been lower by RR 4,946 mainly as a result of higher interest expense on floating rate borrowings. At 31 December 2007, if interest rates on US dollar and Euro denominated borrowings at these dates had been 1.0% higher with all other variables held constant, profit before tax would have been lower by RR 3,864. The effect of a corresponding decrease in interest rate is approximately equal and opposite.

(c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, crude oil and related products, and their impact on the Group's future performance and results of operations. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in development activities and could cause a decrease in the volume of reserves available for transportation and processing through the Group's systems or facilities and ultimately impact the Group's ability to deliver under its contractual obligations.

The Group's overall strategy in production and sales of natural gas, crude oil and related products is centrally managed. Substantially all the Group's natural gas, gas condensate and other hydrocarbon export sales to Europe and other countries are sold under long-term contracts. Natural gas export prices to Europe and other countries are based on a formula linked to world oil product prices, which in turn are linked to world crude oil prices.

The Group's exposure to the commodity price risk is related essentially to the export market (see Note 25). The Russian gas tariffs are regulated by the Federal Tariffs Service and are as such less subject to significant price fluctuations.

The Group assesses on regular basis the potential scenarios of future fluctuation in commodity prices and their impacts on operational and investment decisions.

However, in the current environment management estimates may materially differ from actual future impact on the Group's financial position.

(d) Securities price risk

The Group is exposed to movements in the equity securities prices because of investments held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss (Note 15).

At 31 December 2008, if RTS equity index, which affects on the major part of Group's equity securities, had decreased by 60% with all other variables held constant, assuming the Group's equity instruments moved according to the historical correlation with the index, group's profit before tax for the year would have been RR 32,685 lower.

39 FINANCIAL RISK FACTORS (continued)

At 31 December 2007, if RTS equity index, which affects on the major part of Group's equity securities, had decreased on 40% with all other variables held constant, assuming the Group's equity instruments moved according to the historical correlation with the index, group's profit before tax for the year would have been RR 5,447 lower and other components of equity would have been RR 42,786 lower.

To manage price risk arising from other investments in equity securities, the Group's banking subsidiaries diversify their investment portfolios.

The Group is also exposed to equity securities prices used to assess the fair value of pension plan assets held by NPF Gazfund (see Note 23).

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if counterparty defaults on its contractual obligations. The maximum exposure to credit risk is the value of the assets which might be lost.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable including promissory notes. Credit risks related to accounts receivable are systematically monitored taking into account customer's financial position, past experience and other factors.

Management systematically reviews ageing analysis of receivables and uses this information for calculation of impairment provision (see Note 10). Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customers default risk and country risk. The Group's customer portfolio is diversified with a limited concentration.

Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash and cash equivalents are deposited only with banks that are considered by the Group to have a minimal risk of default.

The Group's maximum exposure to credit risk is presented in the table below.

	31 December	
	2008	2007
Cash and cash equivalents	343,833	279,109
Debt securities	21,431	100,293
Trade and other accounts receivable	657,798	847,784
Financial guarantees	87,328	94,240
Total maximum exposure to credit risk	1,110,390	1,321,426

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, management aims to maintain flexibility in funding by keeping committed funds available. The Group liquidity is managed centrally. The management of the Group monitors the planned cash inflow and outflow.

The Group has access to a wide range of funding through capital markets and banks. Management aim is to maintain flexibility in financing sources by having undrawn committed facilities available.

The Group believes that it has significant funding through the commercial paper markets or through undrawn committed borrowing facilities to meet foreseeable borrowing requirements.

39 FINANCIAL RISK FACTORS (continued)

However, the consequences of the ongoing global financial and economic crisis affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

In April 2009 the Group issued USD 2,250 million Loan Participation Notes due in 2019 at an interest rate 9.25% and CHF 500 million Loan Participation Notes due in 2011 at an interest rate 9% (see Note 40).

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of 31 December 2008					
Loans and borrowings	245,676	186,964	181,615	267,294	474,321
Trade and other payables	428,872	12,632	-	-	-
As of 31 December 2007					
Loans and borrowings	312,881	191,189	241,754	356,741	662,374
Trade and other payables	456,855	15,764	-	-	-

See discussion of financial derivatives in Note 22.

The Group's borrowing facilities do not usually include financial covenants which could trigger accelerated reimbursement of financing facilities.

Capital risk management

The Group considers equity and debt to be the principal elements of capital management. The Group's objectives when managing capital are to safeguard the Group's position as a leading global energy company by further increasing the reliability of natural gas supplies and diversifying activities in the energy sector, both in the domestic and foreign markets.

In order to maintain or adjust the capital structure, the Group may revise its investment program, attract new or repay existing loans and borrowings, sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to adjusted EBITDA ratio. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt (short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities) less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

Adjusted EBITDA is calculated as operating profit less depreciation and less provision for impairment of assets (excluding provisions for accounts receivable and prepayments).

The net debt to adjusted EBITDA ratios at 31 December 2008 and 2007 were as follows:

	31 December	
	2008	2007
Total debt	1,365,764	1,510,666
Less: cash and cash equivalents and certain restricted cash	(347,418)	(282,083)
Net debt	1,018,346	1,228,583
Adjusted EBITDA	1,463,805	891,715
Net debt/Adjusted EBITDA ratio	0.70	1.38

39 FINANCIAL RISK FACTORS (continued)

ОАО Газпром presently has an investment grade credit ratings of BBB (stable outlook) by Standard & Poor's, Baa1 (positive) by Moody's Investor Services, and BBB (stable outlook) by Fitch Ratings. To maintain the credit ratings, management of the Group is enhancing efficiency of its business activities by internal restructuring and managerial improvement.

40 POST BALANCE SHEET EVENTS

Significant deterioration in domestic currency

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar and the Euro. The Group has significant foreign currency denominated receivables and borrowings.

The official Russian Rouble ("RR") to US dollar ("USD") exchange rates as determined by the Central Bank of the Russian Federation increased from 29.38 to 33.55 in the period from 31 December 2008 to 29 April 2009. The official RR to Euro exchange rates as determined by the Central Bank of the Russian Federation increased from 41.44 to 43.66 in the period from 31 December 2008 to 29 April 2009.

Investments

In February 2009 the Group acquired 51% interest in Naftna Industrija Srbije for Serbian dinars 38 billion (Euro 400 million) paid in cash.

In February 2009 the Group acquired 12.5% interest in ОАО Beltransgas for USD 625 million. As a result the Group increased its interest in ОАО Beltransgas up to 37.5%.

On 24 April 2009 the Group exercised the option agreement with ENI S.p.A. to purchase the additional 20% interest in ОАО Gazprom Neft for USD 4.1 billion. In the result of this transaction the Group has increased its interest in ОАО Gazprom Neft to 95.68%. The Group obtained credits from a group of banks in order to finance the transaction.

Borrowings and loans

In January 2009 the Group obtained a credit from ГК Внешэкономбанк in the amount of USD 375 million due in 2010 at an interest rate of 10.75%.

In February 2009 the Group obtained a credit from Sberbank in the amount of USD 724 million due in 2010 at fixed interest rate of 10.25%.

In March 2009 the Group obtained the second tranche from ГК Внешэкономбанк in the amount of USD 150 million due in 2010 at an interest rate of LIBOR + 5% to refinance part of the loan from Calyon Credit Agricole CIB obtained in September and November 2007.

In March 2009 the Group obtained two loans from White Nights Finance B.V. in the amount of USD 500 million and USD 800 million due in 2014 at an interest rate of 10.5%.

In April 2009 the Group obtained a credit from Sberbank in the amount of USD 3,000 million due in 2014 at an interest rate of 10%.

In April 2009 the Group obtained a loan from ОАО Russian Agricultural Bank in the amount of USD 600 million due in 2014 at an interest rate of 10%.

In April 2009 the Group obtained a loan from GPB Credit Risk Management S.A. in the amount of USD 600 million due in 2014 at an interest rate of 10%.

In April 2009 the Group issued USD 2,250 million Loan Participation Notes due in 2019 at an interest rate 9.25% and CHF 500 million Loan Participation Notes due in 2011 at an interest rate 9% under the USD 30,000 million Programme for the Issuance of Loan Participation Notes.

In April 2009 the Group issued bonds in the amount of RR 10,000 due in 2019 at an interest rate of 16.7% with two years buy-back put option.

ОАО ГАЗПРОМ
INVESTOR RELATIONS

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APPENDIX A

CERTAIN EXPLORATION AND PRODUCTION INFORMATION OF THE GAZPROM GROUP

Licences

The following table shows our licensed areas set out by regions of the Russian Federation as of December 31, 2010.

Licence type ⁽¹⁾	Urals federal district	North-western federal district	Southern and North Caucasian federal districts	Privolzhski federal district	Siberian federal district	Far East federal district	Shelf	Total
	(thousand km ²)							
Licences for geological survey, exploration and production of hydrocarbons (SEPL)	27.0	0.3	3.3	0.6	57.8	—	50.9	139.9
Licences for exploration and production of hydrocarbons (EPL)	68.6	0.7	8.5	2.7	6.7	8.5	10.4	106.1
Licences for geological survey (SL)	25.5	4.1	1.4	5.2	17.5	—	—	53.7

Note:

- (1) As provided by Russian legislation. See "Overview of the Russian Gas Industry, Classification of Reserves, and Certain Regulatory Matters—Russian Regulation—Subsoil licensing."

The following table shows our major fields with the production rights set out according to the main operational regions as of December 31, 2010.

	Name of the field (block)	Year of production start	Subsidiary—license holder	Interest of the Group (%)	Type of the field (block) ⁽¹⁾	Category of the licence ⁽²⁾	Licence expiration year ⁽³⁾
Western Siberia (Urals federal district)	Urengoykoye	1978	OOO Gazprom Dobycha Urengoy	100%	OGC	EPL	2013 ⁽⁴⁾
	Severo-Urengoykoye	1987			G	EPL	2013 ⁽⁴⁾
	Yen-Yakhinskoye	1985			OGC	EPL	2013
	Pestovoye	2004			OGC	EPL	2019
	Yamburgskoye	1991	OOO Gazprom Dobycha Yamburg	100%	OGC	EPL	2018
	Zapolyarnoye	2001			OGC	EPL	2018
	Tazovskoye	—			OGC	SEPL	2025
	Severo-Parusovoye	—			G	EPL	2027
	Medvezhye	1972	OOO Gazprom Dobycha Nadym	100%	OGC	EPL	2018
	Yamsoveyskoye	1997			GC	EPL	2018
	Yubileynoye	1992			OGC	EPL	2018
	Kharasaveyskoye	—			GC	EPL	2019
	Bovanenkovskoye	—			OGC	EPL	2018
	Novoportovskoye	—			OGC	EPL	2019
	Komsomolskoye	1993	OOO Gazprom Dobycha Noyabrsk	100%	G	EPL	2012
	Yety-Purovskoye	2004			G	EPL	2014
	Zapadno-Tarkosalinskoye	1996			OGC	SEPL	2018
	Gubkinskoye	1998	ZAO "Purgaz"	51%	OGK	EPL	2014
	Yuzhno-Russkoye	2007	OAO Severneftegazprom	50.001% (of votes)	OGC	EPL	2043
	Zapadno-Tambeyskoye	—	OAO Gazprom	—	OGC	EPL	2028
	Kruzenshternskoye	—			GC	EPL	2028
	Malyginskoye	—			GC	EPL	2028
	Severo-Tambeyskoye	—			GC	EPL	2028
	Tasiyskoye	—			GC	EPL	2028
	Antipayutinskoye	—			G	EPL	2028
	Sugmutskoye	1995	OOO Gazprom-Noyabrskneftegaz ⁽⁵⁾	100%	O	EPL	2050
	Sutorminskoye and Severo-Karamovskoye	1982			OGC	EPL	2038
	Sporyshevskoye	1996			O	EPL	2047
	Priobskoye	1999	OAO Sibneft-Yugra ⁽⁵⁾	100%	O	EPL	2038

	Name of the field (block)	Year of production start	Subsidiary—license holder	Interest of the Group (%)	Type of the field (block) ⁽¹⁾	Category of the licence ⁽²⁾	Licence expiration year ⁽³⁾
Southern Russia (Southern federal district)	Vyngapurovskoye	1982	OOO Zapolyarneft ⁽⁵⁾	100%	OGC	EPL	2014
	Astrakhanskoye	1986	OOO Gazprom Dobycha Astrakhan	100%	GC	EPL	2019
South Urals (Privolzhski federal district)	Zapadno-Astrakhanskoye	—	OAO Gazprom	—	GC	SEPL	2024
	Orenburgskoye	1974	OOO Gazprom Dobycha Orenburg	100%	OGC	EPL	2018
Eastern Siberia and the Far East (Siberian and Far East federal districts)	Chayadinskoye	—	OAO Gazprom	100%	OGC	EPL	2028
Russian sea shelf	Chikanskoye	—			GC	EPL	2028
	Sobinskoye	—	OOO Gazprom dobycha Krasnoyarsk	100%	OGC	SEPL	2028
	Shtokmanovskoye	—	OOO Gazprom Neft Shelf	100%	GC	EPL	2043
	Prirazlomnoye	—			O	EPL	2043
	Kamennomysskoye more	—	OAO Gazprom	—	G	EPL	2026
	Severo-Kamennomysskoye	—			GC	EPL	2026
	Dolginskoye	—			O	EPL	2025
	Semakovskoye	—			G	EPL	2028
	Kirinskoye	—			GC	EPL	2028

Notes:

- (1) Type of field is provided in accordance with the Russian state classification: OGC—oil,-gas, condensate; OG—oil and gas; GC—gas condensate; G—gas; O—oil.
- (2) The classification is provided in accordance with Russian law.
- (3) The major portion of our licences for survey, exploration and production of hydrocarbons were received in 1993-1996 in accordance with the Federal law "On subsoil". The expiry period of the licences for our largest development fields is mostly between 2012 and 2018. So long as we fulfill the principle requirements of our licensing agreements, we are entitled to extend the licences required to continue the exploration and development of the fields. We intend to extend our licences for the duration of the economic life of the fields.
- (4) The licence for the Urengovskoye field includes the Urengoyetskaya and Yen-Yakhinskaya areas.
- (5) A part of Gazprom Neft.

Exploration activities

The following table sets forth the key figures of our geological exploration activities in Russia (excluding UGSFs wells drilling) for the periods indicated.

	For the year ended December 31,		
	2010	2008	2008
Exploration drilling, thousand meters.....	204.9	163.7	284.9
Completed exploration wells, units	82	75	80
including successful wells	64	43	50
Seismic exploration 2D, thousand line km	18.5	14.7	12.4
Seismic exploration 3D, thousand km2	10.8	9.5	6.6
Drilling throughput, boe/m	20,009.9	21,368.6	13,651.2

Development activities

The following table sets forth the key figures of our geological development drilling in Russia (excluding UGSFs wells drilling) for the periods indicated.

	For the year ended December 31,		
	2010	2009	2008
Constructed production wells, units			
Natural gas.....	118	151	143
Crude oil.....	775	702	629
Total	893	853	772
Penetration in exploration drilling, thousand m			
Natural gas.....	441.5	358.2	375.7
Crude oil.....	2,602.2	2,286.7	2,080.6
Total	3,043.7	2,644.9	2,456.3

Production assets

The following table sets forth the key figures of our production assets in Russia for the periods indicated.

	As of December 31,		
	2010	2009	2008
Producing fields, units	120	121	122
Gas production wells, units	7,403	7,310	7,214
including those in operation.....	6,806	6,775	6,723
Oil production wells, units	6,464	6,158	5,932
including those in operation.....	5,941	5,663	5,444

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