OJSC Yakutskaya Toplivno-Energeticheckaya Kompanya

Independent Auditor's Report and IFRS Consolidated Financial Statements

2011

Contents

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Independent Auditor's Report

To the Shareholders and Board of Directors of
OJSC "Yakutskaya Toplivno-Energeticheskaya Kompanya"

We have audited the accompanying consolidated financial statements of OJSC "Yakutskaya Toplivno-Energeticheskaya Kompanya" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

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 about 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 32 in the financial statements. The Group has issued guarantees in the amount of RUB 4 551 740 thousand that relate to the performance by related parties on a number of construction contracts. The Group believes these guarantees will not result in liabilities to the Group. However, inherent uncertainties in the nature of services to be performed by the related parties, and the magnitude of these guarantees, represent a material uncertainty to the Group. Our opinion is not qualified in respect to this matter.

ZAO PricewaterhouseCoopers Audit

18 May 2012
Moscow, Russia

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(in thousands of Russian Roubles unless otherwise stated)

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	8	3,267,397	2,917,074
Exploration and evaluation assets	9	822,387	704,664
Non-current promissory notes and loans provided	10	35,777	33,415
Total non-current assets		**4,125,561**	**3,655,153**
Current assets			
Inventories	11	418,711	269,358
Trade and other receivables	12	544,857	523,564
Current income tax prepaid		-	42,447
Other taxes prepaid	13	6,694	24,553
Advances to suppliers and other prepayments	14	63,120	84,934
Current promissory notes and loans provided	15	156,766	64,632
Cash and cash equivalents		64,742	103,857
Total current assets		**1,254,890**	**1,113,345**
Total assets		**5,380,451**	**4,768,498**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	826,919	826,919
Other reserves	6	(2,209)	-
Retained earnings	18, 30	2,238,781	1,466,543
Equity attributable to the Company's owners		**3,063,491**	**2,293,462**
Non-controlling interest		(1,466)	-
Total equity		**3,062,025**	**2,293,462**
Non-current liabilities			
Borrowings	17	748,681	1,515,459
Deferred income tax liability	30	231,323	237,583
Non-current retirement benefit liability	18	89,040	46,997
Provisions for asset retirement obligations	19	42,878	41,399
Total non-current liabilities		**1,111,922**	**1,841,438**
Current liabilities			
Borrowings	17	536,674	1,484
Trade and other payables	20	98,031	176,872
Advances from customers		63,471	54,910
Other current liabilities	22	123,455	80,129
Current income tax payable		135,488	-
Other taxes payable	21	249,385	320,203
Total current liabilities		**1,206,504**	**633,598**
Total liabilities		**2,318,426**	**2,475,036**
Total liabilities and equity		**5,380,451**	**4,768,498**

Z.K. Yusupov
General Director

18 May 2012

T.V. Matrokhina
Chief Accountant

(in thousands of Russian Roubles unless otherwise stated)

	Note	2011	2010
Revenue	**23**	3,698,072	3,008,360
Cost of sales	**24**	(1,602,548)	(1,371,994)
Gross profit		**2,095,524**	**1,636,366**
Commercial expenses	**25**	(194,398)	(57,295)
General and administrative expenses	**26**	(589,835)	(495,547)
Other operating expenses, net	**28**	(175,635)	(349,385)
Operating profit		**1,135,656**	**734,139**
Finance income	**29**	40,506	6,351
Finance expense	**29**	(152,852)	(178,750)
Profit before income tax		**1,023,310**	**561,740**
Income tax expense	**30**	(219,286)	(159,538)
Profit for the year		**804,024**	**402,202**
Actuarial loss in other comprehensive income	**18**	(39,734)	-
Deferred tax on actuarial loss	**30**	7,947	-
Total comprehensive income for year		**772,237**	**402,202**
Profit is attributable to:			
- Owners of the Company		804,025	402,202
- Non-controlling interest		(1)	-
Profit for the year		**804,024**	**402,202**
Total comprehensive income is attributable to:			
- Owners of the Company		772,238	402,202
- Non-controlling interest		(1)	-
Total comprehensive income for the year		**772,237**	**402,202**
Earnings per ordinary share for profit attributable to the owners of the Group, basic and diluted (in RUB per share)		**0.97**	**0.49**
Weighted average number of shares outstanding – basic and diluted		**826,919,375**	**826,919,375**

(in thousands of Russian Roubles unless otherwise stated)

	Note	Share capital	Other reserves	Retained earnings	Total equity attributable to the Owners of the Company	Non-controlling interest	Total
At 1 January 2010		**826,919**	**-**	**1,064,341**	**1,891,260**	**-**	**1,891,260**
Profit for the year		**-**	**-**	402,202	**402,202**	**-**	**402,202**
Other comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for 2010		**-**	**-**	402,202	**402,202**	**-**	**402,202**
Balance at 31 December 2010		**826,919**	**-**	**1,466,543**	**2,293,462**	**-**	**2,293,462**
Profit for the year		**-**	**-**	804,025	**804,025**	(1)	**804,024**
Actuarial loss in other comprehensive income	**18, 30**	**-**	-	(31,787)	**(31,787)**	**-**	**(31,787)**
Total comprehensive income for 2011		**-**	**-**	**772,238**	**772,238**	**(1)**	**772,237**
Acquisition of subsidiary	**6**	-	(2,209)	-	**(2,209)**	(1,465)	**(3,674)**
Balance at 31 December 2011		**826,919**	**(2,209)**	**2,238,781**	**3,063,491**	**(1,466)**	**3,062,025**

(in thousands of Russian Roubles unless otherwise stated)

	Note	2011	2010
Cash flows from operating activities			
Profit before income tax		1,023,310	561,740
Adjustments for:			
Depreciation and depletion, change	**8**	130,021	101,464
Loss on disposal, write-off and impairment of property, plant and equipment		113,468	230,524
Finance costs, net	**29**	112,345	172,399
Change in provision for obsolete inventory	**11**	(4,205)	17,770
Change in provision, write-off of trade and other receivables and payables	**12, 14**	23,689	108,036
Pension liabilities		921	50,866
Other non-cash operating costs		58,216	(28,404)
Operating cash flows before working capital changes		**1,457,765**	**1,214,395**
(Increase) in trade and other receivables		(98,102)	(240,825)
(Increase) in inventories		(142,365)	17,947
Increase in trade and other payables		111,895	216,560
Cash from operating activities		**1,329,193**	**1,208,077**
Income taxes paid		(177,732)	(239,793)
Interest paid		(95,676)	(370,339)
Net cash from operating activities		**1,055,785**	**597,945**
Cash flows from investing activities			
Purchase of property, plant and equipment		(593,032)	(350,606)
Investments in exploration and evaluation assets		(60,016)	(352,905)
Capitalised interest paid		(2,599)	(11,047)
Acquisition of subsidiaries, net of cash acquired		1,349	-
Proceeds from sale of property, plant and equipment		3,136	7,485
Provision of loans		(679,305)	(357,250)
Proceeds from sale of investments		507,680	266,193
Interest received		3,814	621
Net cash used in investing activities		**(818,973)**	**(797,509)**
Cash flows from financing activities			
Proceeds from borrowings		1,800,868	2,269,417
Repayment of borrowings		(2,076,795)	(1,997,397)
Net cash used in financing activities		**(275,927)**	**272,020**
Net (decrease)/increase in cash and cash equivalents		**(39,115)**	**72,456**
Cash and cash equivalents at the beginning of		**103,857**	**31,401**
Cash and cash equivalents at the end of the year		**64,742**	**103,857**

1 YTEK and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 for OJSC "Yakutskaya Toplivno-Energeticheskaya Kompanya (YTEK)" (the "Company") and its subsidiaries ("the Group").

The Company was incorporated and is domiciled in the Russian Federation. The Company is a joint stock company and was set up in accordance with Russian regulations. The Company was formerly known as OJSC "Yakutgazprom" and changed its name in 2010.

As of 31 December 2011 the Company's immediate and ultimate parent company was LLC "Investor", and the Company was ultimately controlled by Mr. Z. Magomedov. Neither the Group's immediate parent nor the ultimate controlling party produce financial statements available for public use.

Principal activity

The principal activity of OJSC "Yakutskaya Toplivno-Energeticheskaya Kompanya" is production and refining of natural gas and gas condensate on the territory of the Republic of Sakha (Yakutia). At present gas is produced at Srednevilyuy and Mastakh gas and gas condensate fields located approximately 500 km from Yakutsk, the capital of the Republic of Sakha (Yakutia). The Company also has exploration and production licenses for Tolonskoye and Mirninskoye areas located in the Republic of Sakha (Yakutia). All natural gas is sold to one customer (state-owned company OJSC Sakhatransneftegas). Gas condensate is either sold (major customer is State-owned Enterprise GUP ZKH "Respubliki Sakha (Yakutia)") or refined in Group facilities. In 2010 the Company started retail activities for its refined products through own and rented gas stations.

In October 2011 the Company acquired 60% shares in LLC "Mezhozernoye", which principal activity is exploration and development of gas fields. The company has two production and exploration licenses for Buratinskiy and Mayskiy areas located in Republic of Kalmykia in Russian Federation.

The average number of employees in 2011 was 855 (2010: 825).

Registered address and place of business

The Company's registered address is 4, Lenina Str., Kysyl-Syr village, Vilyuisky ulus, Republic of Sakha (Yakutia), Russian Federation.

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment

3 Summary of Significant Accounting Policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. 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

Functional and presentation currencies

All of the Group's operations are based in the Russian Federation and substantially all of its cash flows are denominated and settled in Russian Roubles, accordingly management has determined the functional currency of the each company within the Group to be the Russian Rouble ("RUB"). All amounts in the financial statements are presented in thousands of Russian Roubles, unless otherwise stated.

Foreign currency transactions

In preparing the financial statements of the entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on loans which relate to assets under construction for future productive use, which are included in the cost of those assets. Capitalisation of borrowing costs includes capitalising foreign exchange differences relating to borrowings to the extent that they are regarded as an adjustment to interest costs. These would be gains and losses that are attributable to the interest rate differential between borrowing costs that would be incurred if the entity borrowed funds in its functional currency, and borrowing costs actually incurred on foreign currency borrowings.

At 31 December 2011 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 32.1961 (2010: USD 1 = RUB 30.4769). The principal average rate of exchange used for translating 2011 income and expenses was USD 1 = RUB 29.3874 (2010: USD 1 = RUB 30.3692).

Consolidated financial statements

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, either directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

3 Summary of Significant Accounting Policies (continued)

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to other reserve within equity.

Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and the current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure at fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these

3 Summary of Significant Accounting Policies (continued)

financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest effective interest rate on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Other financial assets at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the accounting policy for trading investments.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

3 Summary of Significant Accounting Policies (continued)

Initial recognition of financial instruments

Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized within the profit or loss for the year.

3 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Property, plant and equipment

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation and depletion.

To arrive at the fair value of property, plant and equipment as of the date of IFRS transition (1 January 2006) the Group used valuation performed by an independent professionally qualified appraiser. Fair value was determined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets is normally determined as their market value.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest groups of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of (i) fair value less cost to sell and (ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount with the impairment loss recognised immediately in profit or loss.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the year within other operating income or costs.

Depreciation

Depreciation of non oil and gas property, plant and equipment is calculated using the straight-line method over their estimated useful lives, as follows:

	Useful lives in years
Buildings and structures	2-60
Machinery and equipment	1-50
Transport and other	1-20

3 Summary of Significant Accounting Policies (continued)

The residual value of assets is the estimated amount that the Group would currently obtain from disposal of the assets less the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of their useful lives. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Oil and gas properties

Oil and natural gas exploration and evaluation expenditures are accounted for using the successful efforts method of accounting. Costs are accumulated on a field-by-field basis. Costs directly associated with exploration wells are initially capitalized until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to expense. Capitalization is made within property, plant and equipment. Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible assets. No depreciation is charged during the exploration and evaluation phase.

Costs capitalised as oil and gas properties include property acquisitions, costs of production equipment, development cost for proved reserves and costs incurred in exploration and evaluation activities which were determined to result in commercial resources and transferred to oil and gas properties. Unsuccessful exploratory wells or other exploration activities are charged to expense at the time the wells or other exploration activities are determined to be non-productive.

Depreciation, depletion and amortisation of capitalised costs of oil and gas properties is calculated using the unit-of-production method based upon proved developed reserves at the beginning of the period. Acquisition costs of proved properties are depleted using the unit-of-production method based upon total proved reserves at the beginning of the period. For this purpose, the oil and gas reserves of the Group have been determined based on estimates of hydro-carbon reserves in accordance with internationally recognised definitions by internationally recognised petroleum engineers to the extent that the reserves will be extracted by the end of the expected useful life of the fields.

This estimation does not take into account the current license terms as management believes that upon expiry, these licenses will be renewed over the remaining useful life of the field.

Capital construction-in-progress

Capital construction-in-progress comprise costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets that require installation or preparation for their use. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation.

Asset retirement obligations

Estimated costs of dismantling and removing an item of property, plant and equipment "asset retirement obligations" are added to the cost of the item either when an item is acquired. Changes in the measurement of an existing asset retirement 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 for assets carried under the cost model.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing them to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories in the ordinary course of business less all applicable variable selling expenses.

3 Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year. The policy is applicable to advances to suppliers as well.

Borrowings

Borrowings are carried at amortised cost using the effective interest method.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when (a) the Group has a present legal or constructive obligation as a result of past events, (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (c) a reliable estimate of the amount of the obligation can be made.

3 Summary of Significant Accounting Policies (continued)

Guarantees

Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are 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 end of the reporting period.

Performance guarantees are issued to guarantee the second party's due and proper performance of contractual obligations in an underlying contract. If the second party does not meet the contractual obligation, the Group is required to cover all related cost. Such guarantees are not recognised in the balance sheet unless it is probace that the obligation to pay arisen.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Income taxes

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

3 Summary of Significant Accounting Policies (continued)

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Revenue recognition

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specific location, revenue is recognised when the goods are passed to the customer at the destination point.

The tariffs for natural gas extracted and sold by the Group are regulated by the Russian Federation represented by the Federal Tariff Service which establishes mandatory prices for all natural monopolies. Prices for stable gas condensate, heating oil, electricity and heat produced and sold by the Group are regulated by Regional Energetic Committee of the Republic Sakha (Yakutia).

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 goods and services given up.

Interest income is recognized on a time-proportion basis using the effective interest method.

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

The Group is legally obliged to make defined contributions to the Russian Federation State Pension Fund.

The Group has legal or constructive obligation to make pension or similar benefit payments in accordance with the collective treaty with the Group's personnel. Current retirement benefit plan is unfunded and maintained solely by the Group. The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash flows using yields on high quality government bonds which have terms to maturity approximating the terms of the related liability.

The determination of the pension costs and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions, which include the discount rate, inflation rate, salary growth and longevity.

The Group recognises immediately all actuarial gains and losses related to post employment benefits in other comprehensive income in the Statement of comprehensive income and expenses. Actuarial gains and losses related to other long-term employee benefits are recognised immediately in profit and loss for the year.

3 Summary of Significant Accounting Policies (continued)

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting year.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously

Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue are ten percent or more of all the segments are reported separately.

New IFRS effective in 2011

- **IAS 24 (Amendment)**, *Related Party Disclosures* (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; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Group now also discloses contractual commitments to purchase and sell goods or services to its related parties.

- **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. The amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements.

New IFRS effective after 31 December 2011 and not early adopted

- **IFRS 9**, *Financial Instruments, Part 1: Classification and Measurement*. effective for annual periods beginning on or after 1 January 2015. IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets.

- **IFRS 10**, *Consolidated Financial Statements*, effective for annual periods beginning on or after 1 January 2013. IFRS 10 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.

- **IFRS 13**, *Fair Value Measurement*, effective for annual periods beginning on or after 1 January 2013. IFRS 13 aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

- **IAS 27** (Amendment), *Separate Financial Statements*, effective for annual periods beginning on or after 1 January 2013. IAS 27 was changed and its objective is now solely to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

- **IFRS 7 (Amendment)**, *Financial Instruments: Disclosures*, 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 including 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.

3 Summary of Significant Accounting Policies (continued)

- **IFRS 7 (Amendment)**, *Financial Instruments: Disclosures*, effective for annual periods beginning on or after 1 January 2013. The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

- **IAS 32 (Amdendment)**, *Financial Instruments: Presentation*, effective for annual periods beginning on or after 1 January 2014. The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria.

- **IAS 1 (Amendment)**, *Presentation of Financial Statements*, effective for annual periods beginning on or after 1 July 2012. The amendment changes the disclosure of items presented in other comprehensive income.

The Group is currently assessing the impact of these new accounting pronouncements and unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

The Group has reviewed and found irrelevant the following new interpretations:

- **IFRIC 19**, *Extinguishing Financial Liabilities with Equity Instruments*, effective for annual periods beginning on or after 1 July 2010;

- **IAS 32 (Amendment)**, Financial Instruments, effective for annual periods beginning on or after 1 February 2010.

- **IFRIC 14 (Amendment)**, *Prepayments of a Minimum Funding Requirement,* effective for annual periods beginning on or after 1 January 2011;

- **IFRS 1 (Amendment),** *First-time Adoption of IFRS*, effective for annual periods beginning on or after 1 July 2010;

- **IFRS 11**, *Joint Arrangements*, effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-Monetary Contributions by Ventures*.

- **IFRS 12**, *Disclosure of Interest in Other Entities*, effective for annual periods beginning on or after 1 January 2013, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

- **IAS 28 (Amendment)**, *Investments in Associates and Joint Ventures*, effective for annual periods beginning on or after 1 January 2013.

- **IFRS 1 (Amendment)**, *First-time Adoption of IFRS*, effective for annual periods beginning on or after 1 January 2013 and relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions;

- **IAS 12 (Amendment)**, *Income Taxes*, effective for annual periods beginning on or after and introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale; and

- **IFRIC 20**, *Stripping Costs in the Production Phase of a Surface Mine*, effective for annual periods beginning on or after 1 January 2013.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised 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 include:

Impairment of assets

Management reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

In 2011 a number of PP&E items were impaired on individual asset basis due to physical damage or obsolescence as Management anticipated no future economic benefits would flow from these assets. Management has identified no external impairment indicators for 2011 (Note 8).

Depletion of oil and gas properties

The Group's oil and gas properties, classified within property, plant and equipment, are depleted using the unit-of-production method based upon proved developed reserves at the beginning of the period. For this purpose, the oil and gas reserves of the Group have been determined based on estimates of hydro-carbon reserves in accordance with internationally recognised definitions by internationally recognised petroleum engineers to the extent that the reserves will be extracted by the end of the expected useful life of the field reserves.

When determining useful life of the field reserves, assumptions that were valid at the time of estimation, may change when new information becomes available.

Renewal of existing licenses for gas and gas condensate production

Based on the Group's successful history of renewals of licenses management believes that upon their expiry the licenses for gas and gas condensate production on Mastakh (expires 31 December 2035) and Srednevilyuy fields (expires 31 December 2017) will be renewed. Mastakh and Srednevilyuy fields licenses were previously renewed in 2005. If depreciation and depletion for 2011 is calculated based on license expiration terms it would have increased by RUB 341,459 (actual charge for 2011 is RUB 130,021).

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

Guarantees provided

The Company has provided financial guarantees amounting to RUB 4,551,740 (see Note 32). These guarantees exceed the value of the Group's net assets.

The guarantees relate to the performance by parties related to the sole participant of LLC Investor for certain construction contracts. The Company's management believes these liabilities will not crystallize. However, the inherent uncertainties in the nature of services to be performed by the parties, and the magnitude of these guarantees represent a material uncertainty.

(in thousands of Russian Roubles unless otherwise stated)

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (continued)

Management monitors fulfilment of the construction contracts and believes that the probability that entities for which guarantees are issued will not meet their obligations and that the creditors will realize their guarantees is low; however, there can be no certainty in this regard.

Income taxes

Significant judgement is required in determining the Group provision for income taxes due to the complexity of tax legislation in Russian Federation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Asset retirement obligation

Asset retirement obligation 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 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. Estimating the amounts and timing of those obligations that should be recorded requires significant judgement. This judgement is based on cost and engineering studies using currently available technology and is based on current asset retirement regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

5 Financial Risk Management

At 31 December 2011 and 2010, the Group financial instruments were as follows:

	31 December 2011	31 December 2010
Financial Assets:		
Cash and cash equivalents	64,742	103,857
Financial receivables	544,857	523,564
Loans provided and other assets	192,543	98,047
Total Financial Assets	**802,142**	**725,468**
Financial Liabilities:		
Financial Payables	98,031	176,872
Current Borrowings	536,674	1,484
Non-current borrowings	748,681	1,515,459
Total Financial Liabilities	**1,383,386**	**1,693,815**

At 31 December 2011 and 2010, the carrying value of the financial assets and liabilities approximated their fair values.

Financial Risk Factors

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

(in thousands of Russian Roubles unless otherwise stated)

5 Financial Risk Management (continued)

The maximum exposure to credit risk for cash and cash equivalents, loans and trade and other receivables is as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Cash and cash equivalents	64,742	103,857
Short term loans and interest receivable	156,766	64,632
Trade and other receivables	544,857	523,564
Long-term investments and other financial assets	35,777	33,415

Major balances of cash are held in OJSC Sberbank, its rating by Moody's Investors Service is Baa1 and by Fitch Ratings is BBB.

For the Group's customers there is no independent rating and, therefore, the Group considers the credit quality of the customer at the contract execution stage. The Group's CFO and CEO consider the customer's financial position and its credit history. The Group monitors the existing receivable on a continuous basis and takes actions regularly to ensure collection or to minimize losses. The Group's CFO reviews ageing analysis of outstanding trade receivables and follows up on past due balances.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the statement of financial position. The summary below shows the turnover and outstanding balances (before the impairment provision) of top 5 counterparties as at and for the period ended at the respective reporting date:

	31 December 2011		31 December 2010	
	Turnover	Outstanding balance	Turnover	Outstanding balance
OJSC Sakhatransneftegaz	2,675,877	427,555	3,049,699	501,399
OJSC NNGK Sakhaneftegaz	10,501	224,619	14,119	249,898
GUP GKH	371,048	94	331,307	578
CJSC NK Yakol	62,294	17,581	92,577	248,131
LLC Armada	118,280	118,280	-	-
Total	**3,238,000**	**788,129**	**3,487,702**	**1,000,006**

At 31 December 2011 and 2010, the ageing of financial receivables was as follows:

	Total before Impairment	Impaired	Balance	Neither past due nor impaired	Past due but not impaired
31 December 2011:					
Billed within 30 days	452,598	-	452,598	452,598	-
Billed 31 to 180 days	71,346	(28,381)	42,965	-	42,965
Billed 180+ days	674,226	(624,932)	49,294	-	49,294
Total	**1,198,170**	**(653,313)**	**544,857**	**452,598**	**92,259**
31 December 2010:					
Billed within 30 days	28,138	-	28,138	28,138	-
Billed 31 to 180 days	388,879	(22,185)	366,694	-	366,694
Billed 180+ days	725,552	(596,821)	128,731	-	128,731
Total	**1,142,569**	**(619,005)**	**523,564**	**28,138**	**495,425**

Movements in the impairment provision for trade and other receivables are as follows:

	31 December 2011	31 December 2010
Provision for impairment at 1 January	(619,005)	(427,426)
Unused amounts reversed	54,466	-
Additional provision	(88,774)	(191,579)
Provision for impairment at 31 December	**(653,313)**	**(619,005)**

(in thousands of Russian Roubles unless otherwise stated)

5 Financial Risk Management (continued)

Historically there were no problems with repayments of neither past due not impaired trade and other receivables of third parties and related parties.

Liquidity risk

Liquidity risk is the risk an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group manages liquidity risk by using budget procedures. Both budgets on accrual basis and cash basis are prepared. Prudent liquidity risk management includes maintaining sufficient cash and availability of funding from an adequate amount of loan facilities. The Group uses balanced model of financing of working capital – both at the expense of short-term sources and long-term sources.

At 31 December 2011 and 2010, the Group maintained committed lines of credit facilities in which the following amounts were available for drawdown to meet short and medium-term financing needs:

	31 December 2011	31 December 2010
Total amount of credit facilities available for withdrawal	**1,650,000**	**1,950,000**
Amounts withdrawn	1,196,548	1,455,584
Amount available for withdrawal	**453,452**	**494,416**

The summaries of maturity profile of the Group's financial liabilities as of 31 December 2011 and 2010, based on contractual payments are presented in Note 17.

Interest rate risk

The Group is exposed to interest rate risk as borrows funds at both fixed and floating interest rates. The floating rate debt exposes the Group to fluctuations in interest payments due to changes in interest rates. The Group does not use any derivatives to manage interest rate risk exposure.

The table below details the Group's sensitivity to increase or decrease of the floating rate by 1%, which is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The analysis was applied to loans and borrowings based on the assumptions that amount of liabilities outstanding at the reporting date were outstanding for the whole year.

	Year ended 31 December 2011	Year ended 31 December 2010
MosPrime 1 month	7,487	-
MosPrime 3 months	1,978	14,556
Total	**9,465**	**14,556**

Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group is not exposed to currency risk due to insignificant number of transactions in foreign currencies

(in thousands of Russian Roubles unless otherwise stated)

5 Financial Risk Management (continued)

Capital risk management

The Group's capital risk management has the key objectives of compliance with the Russian legislation requirements and a policy of capital cost reduction. The following capital requirements have been established for joint stock companies by the legislation of the Russian Federation:

- share capital cannot be lower than 1,000 minimum shares on the date of the Group's registration;
- if the share capital of the entity is more than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- if the minimum allowed share capital is more than statutory net assets of the entity, such entity is subject to liquidation.

As of 31 December 2011 the Group was in compliance with the above share capital requirements.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital that the Group managed as of 31 December 2011 was RUB 3,063,491 (31 December 2010: RUB 2,293,462).

Consistent with others in the oil and gas industry, the Group monitors capital on the basis of a gearing ratio, and ensures that the ratio is not more than 1.0. This ratio is calculated as the total debt divided by the total capital. Debt is calculated as sum of non-current and current debt, as shown in the Statement of Financial Position. Total capital is equal to the total equity, as shown in the Statement of Financial Position. Gearing ratio was 0.42 as of 31 December 2011 (31 December 2010: 0.66).

The current policy of the Group is not to pay dividends.

6 Business combination

On 14 October 2011 the group acquired 60% of the share capital of LLC Mezhozernoye from a private person.

This acquisition was treated as a business combination under common control and was accounted for by the Group prospectively from the date of obtaining the ownership interest. Assets and liabilities have been recognized at their carrying amounts. The difference between the cost of the acquisition (i.e., the fair value of the consideration paid), and the amounts at which the assets and liabilities have been recorded is recognized in other reserves in Consolidated Statement of Changes in Equity. The information below summarizes the information regarding assets acquired and the liabilities assumed at the acquisition date.

Recognized amounts (predecessor values)	**Balance at Date of Acquisition**
Property, plant and equipment	42,989
Other non-current financial assets	5,398
Inventories	2
Trade and other receivables	13
Cash and cash equivalents	1,362
Borrowings	(43,645)
Trade and other payables	(9,780)
Total recognized net liabilities	**(3,662)**
Loss attributable to Owners of the Company	(2,209)
Loss attributable to non-controlling interest	(1,465)
Consideration paid	**12**

(in thousands of Russian Roubles unless otherwise stated)

7 Segment Information

Starting from 1 January 2009, the Group prepares its segment analysis in accordance with IFRS 8, *Operating segments*, which replaced IAS 14, *Segment reporting*.

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Company's General Director.

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of three main business segments:

- Extraction and sales of natural gas – representing sale of natural gas, stable gas condensate and heavy heating oil; tariffs for natural gas and heavy heating oil are regulated by the Federal Tariff Service of the Russian Federation and Regional Energetic Committee of the Republic Sakha (Yakutia) accordingly.
- Refining and sale of oil products – representing sales of refined products: gasoline and diesel fuel;
- Other sales include a number of minor segments such as production and sale of electricity and heat and which do not have similar economic characteristics.

(b) Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

(c) Measurement of operating segment revenue

The CODM evaluates performance of each segment based on revenues disclosed in management accounting for the period, prepared under Russian Standards of Accounting (RSA). Segment expenses are analyzed in aggregate. Information on segment assets and liabilities is not reported and used by the CODM.

Segment information for the reportable segments for the year ended 31 December 2011 is set out below:

	Extraction and sales of natural gas	Refining and sale of oil products	Other sales	Total Group
Year ended 31 December 2011				
Revenue from external customers	2,263,512	1,375,878	58,682	3,698,072
Total revenue	**2,263,512**	**1,375,878**	**58,682**	**3,698,072**
EBITDA*				**1,400,333**

* EBITDA – Earnings before interest, tax, depreciation and amortisation, calculated as management accounting operating profit before depreciation, prepared under RSA.

Reconciliation of the reportable segment revenues and results to the statement of comprehensive income for the year ended 31 December 2011 is provided as follows:

	Year ended 31 December 2011
Total revenues from reportable segments (RSA)	3,698,072
Other operating income (included in other operating income and expenses under IFRS)	-
Total revenue (IFRS)	**3,698,072**

(in thousands of Russian Roubles unless otherwise stated)

7 Segment Information (continued)

The presentation of revenue reconciliation in 2011 has been changed due to changes in management accounting. Now there is no difference in revenue between IFRS and management accounting. As the changes in management accounting have not been done retrospectively the presentation of reconciliation with IFRS is left unchanged.

	Year ended 31 December 2011
EBITDA for reportable segments (RSA)	**1,400,333**
Impairment charge and other reserves related to property, plant and equipment (Note 9)	(118,984)
Impairment charge and write-off of accounts receivable (Note 13, 15)	(59,305)
Impairment charge and write-off related to inventory (Note 12)	12,301
Depreciation and depletion (under IFRS) (Note 10)	(130,021)
Provision for unused vacation and pension expenses (Note 19, 23)	(20,138)
Net finance costs	(112,345)
Charity expenses	(31,801)
Other	83,271
Profit before income tax (IFRS)	**1,023,311**

Segment information for the reportable segments for the year ended 31 December 2010 is set out below:

	Extraction and sales of natural gas	Refining and sale of oil products	Other sales	Total Group
Year ended 31 December 2010				
Revenue from external customers	1,964,464	1,105,766	197,253	3,267,482
Total revenue	**1,964,464**	**1,105,766**	**197,253**	**3,267,482**
EBITDA*				**1,287,084**

* EBITDA – Earnings before interest, tax, depreciation and amortisation, calculated as management accounting operating profit before depreciation, prepared under RSA.

Reconciliation of the reportable segment revenues and results to the Consolidated Financial statements for the year ended 31 December 2010 is provided as follows:

	Year ended 31 December 2010
Total revenues from reportable segments (RSA)	**3,267,482**
Excise tax on gasoline and other	(105,492)
Other operating income (included in other operating income and expenses under IFRS)	(153,630)
Total revenue (IFRS)	**3,008,360**

	Year ended 31 December 2010
EBITDA for reportable segments (RSA)	**1,287,084**
Capitalised expenses into property, plant and equipment	60,603
Impairment charge and other reserves related to property, plant and equipment (Note 9)	(228,665)
Impairment charge and write-off of accounts receivable (Note 13, 15)	(228,390)
Impairment charge and write-off related to inventory (Note 12)	(18,498)
Depreciation and depletion (under IFRS) (Note 9)	(101,464)
Provision for unused vacation and pension expenses (Note 19, 23)	(48,329)
Net finance costs	(172,399)
Other	11,798
Profit before income tax (IFRS)	**561,740**

The Group's major activity is located on the territory of the Republic of Sakha (Yakutia). Information on major customers is provided in Note 5.

(in thousands of Russian Roubles unless otherwise stated)

8 Property, Plant and Equipment

Cost	Land	Oil and gas properties	Buildings and structures	Machinery and equipment	Transport and other assets	Capital construction in progress	Total
Balance at 1 January 2010	**-**	**1,581,844**	**721,201**	**179,578**	**139,897**	**522,345**	**3,144,865**
Additions	-	3,111	120,321	25,948	15,383	218,485	**383,248**
Disposals	-	(10,579)	(2,487)	(15,572)	(30,511)	-	**(59,149)**
Impairment	-	(2,875)	(23,728)	3,407	-	(186,388)	**(209,584)**
Transfers	-	25,998	(25,998)	-	-	-	**-**
Dismantlement, net change	-	27,229	-	-	-	-	**27,229**
Balance at 31 December 2010	**-**	**1,624,728**	**789,309**	**193,361**	**124,769**	**554,442**	**3,286,609**
Additions	4,562	79,702	42,662	58,885	26,651	438,984	**651,446**
Acquisition through business combination	-	-	-	-	42	-	**42**
Disposals	-	(8,856)	(63,818)	(11,034)	(14,490)	(34,717)	**(132,915)**
Impairment	-	-	-	1,704	-	(56,519)	**(54,815)**
Transfers	-	(235)	4,019	(2,962)	(1,057)		**(235)**
Dismantlement, net change	-	(2,784)	-	-	-	-	**(2,784)**
Balance at 31 December 2011	**4,562**	**1,692,555**	**772,172**	**239,954**	**135,915**	**902,190**	**3,747,348**
Accumulated Depreciation and Depletion							
Balance at 1 January 2010	**-**	**(120,129)**	**(78,482)**	**(48,350)**	**(45,094)**	**-**	**(292,055)**
Charge for the year	-	(34,964)	(23,376)	(29,618)	(14,330)	-	**(102,288)**
Disposals	-	1,138	1,626	7,583	14,461	-	**24,808**
Balance at 31 December 2010	**-**	**(153,955)**	**(100,232)**	**(70,385)**	**(44,963)**	**-**	**(369,535)**
Charge for the year	-	(38,659)	(45,681)	(27,936)	(17,745)	-	**(130,021)**
Disposals	-	1,035	5,560	5,669	7,341	-	**19,605**
Balance at 31 December 2011	**-**	**(191,579)**	**(140,353)**	**(92,652)**	**(55,367)**	**-**	**(479,951)**
Carrying value							
Net book value at 1 January 2010	**-**	**1,461,715**	**642,719**	**131,228**	**94,803**	**522,345**	**2,852,810**
Net book value at 31 December 2010	**-**	**1,470,773**	**689,077**	**122,976**	**79,806**	**554,442**	**2,917,074**
Net book value at 31 December 2011	**4,562**	**1,500,976**	**631,819**	**147,302**	**80,548**	**902,190**	**3,267,397**

(in thousands of Russian Roubles unless otherwise stated)

8 Property, Plant and Equipment (continued)

Cost of fully depreciated property, plant and equipment items still in use amounted to RUB 16,270 as of 31 December 2011 (31 December 2010: RUB 9,449).

Net book value of pledged property under the loan facility with Raiffeisenbank amounted to RUB 96,821 as of 31 December 2011 (31 December 2010: RUB nil). See Note 18.

Net book value of pledged property under the loan facility with Sberbank amounted to RUB nil as of 31 December 2011 (31 December 2010: RUB 902,242). See Note 18.

9 Exploration and evaluation assets

Group's exploration and evaluation assets as of 31 December 2011 consisted of exploration and production licenses for Mirninskiy and Tolonskoye areas in the Republic of Sakha (Yakutia) and exploration and production licenses for Mayskiy and Buratinskiy areas in the Republic of Kalmykia. Licenses holder for Mayskiy and Buratinskiy areas is LLC Mezhozernoye acquired by the Company in October 2011 (see Note 7).

Balance at 1 January 2010	**340,947**
Additions	363,717
Balance at 1 January 2011	**704,664**
Additions	74,817
Acquisition through business combination	42,671
Transfers	235
Balance at 31 December 2011	**822,387**

10 Non-current promissory notes and loans provided

Investments and other financial assets represent RUB denominated interest-free promissory notes issued by third-parties maturing in 2012-2018. Those are stated at amortized cost using discount rate of 10% p.a.

11 Inventories

	31 December 2011	31 December 2010
Materials and supplies	273,836	247,718
Natural gas and hydrocarbon fuels	183,665	66,761
Provision for obsolete inventory related to materials and supplies	(38,790)	(45,121)
	418,711	**269,358**

The cost of inventories recognised as operating expense during the period representing amounted to RUB 361,649 (2010: RUB 431,762).

Movements in the impairment provision for inventory are as follows:

	31 December 2011	31 December 2010
Provision for obsolete inventory as at 1 January	(45,121)	(27,351)
Reversal /(Accrual) of reserve	4,205	(17,770)
Write off of inventory	2,126	-
Provision for obsolete inventory as at 31 December	**(38,790)**	**(45,121)**

(in thousands of Russian Roubles unless otherwise stated)

12 Trade and Other Receivables

	31 December 2011	31 December 2010
Trade receivables	503,578	426,494
Other receivables	694,592	716,075
Less impairment provision	(653,313)	(619,005)
	544,857	**523,564**

All balances are denominated in Russian Roubles.

13 Other Taxes prepaid

	31 December 2011	31 December 2010
Value added tax receivable	2,511	21,769
Other Taxes	4,183	2,784
	6,694	**24,553**

14 Advances to suppliers and other prepayments

	31 December 2011	31 December 2010
Advances to suppliers	64,642	103,240
Prepaid expenses	1,062	2,094
Impairment provision for unrecoverable amounts	(2,584)	(20,400)
	63,120	**84,934**

Movements in the impairment provision for advances to suppliers and prepayments are as follows:

	31 December 2011	31 December 2010
Provision for impairment at 1 January	(20,400)	(869)
Usage of prior year provision	13,200	-
Reversal of provision	7,158	-
Accrual of provision	(2,542)	(19,531)
Provision for impairment at 31 December	**(2,584)**	**(20,400)**

15 Current promissory notes and loans provided

	31 December 2011	31 December 2010
Promissory notes: yield to maturity 10% (2010: 10%)	19,370	14,318
Loans issued: interest – 9.15%-10.8% (2010: 6%-20%)	149,950	53,295
Less impairment provision	(12,554)	(2,981)
	156,766	**64,632**

In 2011 the Group issued two loans to LLC “Gruppa “Summa” in amounts of RUB 45,000 with interest rate of 9.15% p.a. maturing on 31 December 2012 and RUB 65,500 with interest rate of 10.8% p.a. maturing on 31 December 2012.

In 2011 the Group issued a loan to LLC Architeck. As at 31 December 2011 the balance amounted to RUB 39,450. The loan was past due as at 31 December 2011 but subsequently was partially repaid, comprising residual amount of RUB 23,708.

Promissory notes from OJSC “Lenagas” in amount of RUB 12,554 repayable in 2011 are past due and fully impaired.

Please refer to note 31 for loans to related parties.

(in thousands of Russian Roubles unless otherwise stated)

16 Share Capital

The total authorised number of ordinary shares is 826,919,375 shares (2010: 826,919,375 shares) with a par value of RUB 0.001 per share (2010: RUB 0.001 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

17 Borrowings

	31 December 2011	31 December 2010
Non-current borrowings - third parties		
OJSC Sberbank	-	1,455,584
CJSC Raiffeisenbank	998,681	-
GUP "Komitet po dragozennim metallam" (formerly GUP "Vilyuy-Invest")	64,566	59,875
Interest payable	22,741	1,484
Less: current portion	(337,307)	(1,484)
Total non-current borrowings	**748,681**	**1,515,459**
Current borrowings - third parties		
CJSC Raiffeisenbank	197,867	-
Current borrowings – related parties		
LLC Soyuz Trading	1,500	-
Current portion of non-current borrowings		
CJSC Raiffeisenbank	250,000	-
GUP "Komitet po dragozennim metallam" (formerly GUP "Vilyuy-Invest")	64,566	-
CJSC Raiffeisenbank	22,405	
Interest payable other	336	1,484
Total current borrowings	**536,674**	**1,484**
Total borrowings	**1,285,355**	**1,516,943**

All borrowings are RUB–denominated.

In 2010 the Group signed two credit line agreements with OJSC Sberbank for the total amount of RUB 1,950,000. Loans are maturing in 2013-2014 and bear interest rate - MosPrime 3 months + 4.6% – 5% p.a. Loans were secured by property, plant and equipment and land rights. The loan was fully repaid in 2011.

In June 2011 the Group entered in a credit line agreement with CJSC Raiffaisenbank for the total amount of RUB 1,000,000 maturing in 2015. The loan bears interest at MosPrime 3 months + 3.8% p.a. Credit line was fully used in September 2011. Loans are secured by property, plant and equipment and land rights. The current portion of this debt is RUB 250,000.

In June 2011 the Group entered in a credit line agreement with CJSC Raiffaisenbank for the total amount of RUB 650,000 maturing in 2015. The Group can take tranches with maturity from 1 to 6 months. The loan bears interest at MosPrime 1 month + 2.75% p.a. The loan is unsecured.

Included in current portion of non-current debt is a loan payable to GUP "Komitet po dragozennim metallam" rmaturing on 31 December 2012, and bears no interest. The debt is stated at amortized cost using the discount rate of 10%.

(in thousands of Russian Roubles unless otherwise stated)

17 Borrowings (continued)

Included in short term borrowings is a loan from LLC Soyuz Trading maturing 31 December 2012 with interest rate of 12% p.a.

The undiscounted maturity profile of loans and borrowings is as follows:

	Principal	Interest
Due within three months	197,867	24,245
Due from three to six months	-	2,296
Due from six months to twelve months	322,541	9,183
Total current portion repayable in one year	**520,408**	**35,724**
Due in the second year	333,333	36,733
Due there after	415,348	39,029
Total	**1,269,089**	**111,486**

Property, plant and equipment are pledged as collateral for borrowings of RUB 96,821 (2010: RUB 902,242). Refer to Note 8.

Interest in amount of RUB 2,599 was capitalised in cost of exploration licenses in 2011.

18 Retirement benefit liability

In 2011 the Company recognized RUB 39,734 charge in other comprehensive income and RUB 5,244 in profit and loss. Total amount recognized in the profit or loss relating to retirement benefit is part of employee benefit expenses.

The Company provides its employees with additional payments after retirement or cease of employment according to retirement benefits plan. Amount of payments are fixed and depend on different factors, including average wages and labor experience.

As of 31 December 2011 there were about 800 employees eligible for retirement benefits plan.

The latest independent actuarial evaluation in accordance with IAS 19 was carried out in February 2012 as of 01 January 2011 and 31 December 2011. Personal data of the plan participants were collected and used for evaluation as of respected dates.

The underlying assumptions for the evaluation:

Discount rate	8.30 % p.a.
Wage index	5.60 % p.a.
Emplovee's flow	10.00 % p.a.
Mortality tables	USSR 1985 – 1986
Retirement age	Official retirement age:
	(men-60 years, women – 55)

(in thousands of Russian Roubles unless otherwise stated)

18 Retirement benefit liability (continued)

The sensitivity analysis is performed to illustrate impact of changes of key assumptions used for calculation of retirement benefit obligation as of 31 December 2011.

Sensitivity analysis of retirement benefit obligation as of 31 December 2011:

	Retirement benefit obligation 31 December 2011	Change in Retirement benefit obligation, %
Basic scenario	95,844	
Nominal discount rate (+1%)	86,260	(10%)
Nominal increase in wages (+1%)	108,304	13%
Disability 10% lower	96,802	1%
Employees flow (less 5%) for employees younger than 50 years	101,595	6%
Mortality 10% lower	101,229	6%

Defined benefit obligation balances as of 31 December 2011 and 31 December 2010:

	31 December 2011	31 December 2010
Retirement benefit liability	95,844	50,866
Less: current portion	(6,804)	(3,869)
	89,040	**46,997**

Movement in the defined benefit obligation over the year:

	31 December 2011	31 December 2010
Obligation at the beginning of the year	**50,866**	**-**
Interest expense	4,323	-
Labour expense	921	50,866
Actuarial loss in other comprehensive income	39,734	-
Obligation at year end	**95,844**	**50,866**

The amount recognised in the statement of comprehensive income and expenses in 2011 is RUB 44,978. Refer to Note 30 for deferred income tax on actuarial loss.

19 Provisions for Asset Retirement Obligations

The Group has a legal obligation to liquidate the gas wells and restore a site after the depletion of gas field. Movements in provisions for asset retirement obligations are as follows:

	31 December 2011	31 December 2010
Carrying amount at the beginning of the period	41,399	12,708
Changes in estimates adjusted against property, plant and equipment	(2,785)	27,229
Unwinding of the present value discount	4,264	1,462
Carrying amount at the end of the period	**42,878**	**41,399**

The expected timing of outflow of economic benefits related to provision for asset retirement obligations is more than 40 years.

(in thousands of Russian Roubles unless otherwise stated)

19 Provisions for Asset Retirement Obligations (continued)

Based on sensitivity analysis of change of discount rate used to calculate present value of asset retirement obligation (discount factor applied in 2011 – 10%):

	Asset retirement obligation 31 December 2011	Change in Asset retirement obligation, %
Increase of discount factor by 1%	29,586	(31%)

20 Trade and Other Payables

	31 December 2011	31 December 2010
Trade payables	60,149	51,423
Promissory notes	1,560	3,000
Other payables	36,322	122,449
	98,031	**176,872**

Included in Accounts payable balance as of 31 December 2011 are Group's interest free promissory notes which are payable on demand.

As of 31 December 2010 other payables relate to amounts payable under court decisions and amount payable for cession.

All trade and other payable balances are denominated in RUB.

The undiscounted maturity profile of trade and other payables is as follows:

	31 December 2011	31 December 2010
Due within three months	98,031	176,872
Due from three to six months	-	-
Due from six months to twelve months	-	-
	98,031	**176,872**

21 Other Taxes Payable

	31 December 2011	31 December 2010
Value-added tax	127,057	190,774
Extraction tax	26,801	35,279
Excise tax	50,882	34,083
Property tax	20,458	15,499
Other taxes	24,187	44,568
	249,385	**320,203**

22 Other current liabilities

	31 December 2011	31 December 2010
Wages and salaries payable	35,718	27,975
Provision for unused vacation	80,933	48,285
Current portion of retirement obligation	6,804	3,869
	123,455	**80,129**

(in thousands of Russian Roubles unless otherwise stated)

23 Revenue

	Year ended 31 December 2011	Year ended 31 December 2010
Sales – gas	2,263,512	1,964,464
Sales – gas condensate and heavy fuel oil	412,092	166,890
Sales – refined products	963,785	830,649
Sales – other	58,683	46,357
	3,698,072	**3,008,360**

24 Cost of sales

	Year ended 31 December 2011	Year ended 31 December 2010
Wages and salaries expenses	454,548	396,483
Unified production tax	388,780	235,704
Raw materials	354,086	427,586
Depreciation and depletion	122,313	98,441
Repair and maintenance	112,229	63,144
Transportation	44,507	5,002
Property and other taxes	40,168	68,216
Exploration expenses	33,249	11,944
Utilities	32,634	37,620
Rental expenses	3,221	2,869
Insurance	1,964	2,159
Other production costs	14,849	22,826
	1,602,548	**1,371,994**

25 Commercial expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Transportation	91,417	18,667
Wages and salaries expenses	57,524	23,848
Maintenance and repairs	19,594	1,136
Advertising and marketing expenses	10,025	651
Rental expenses (retail activity)	4,490	7,109
Depreciation	2,781	-
Other commercial expenses	8,567	5,884
	194,398	**57,295**

26 General and administrative expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Wages and salaries expenses	373,956	355,434
Consulting and professional services	76,605	50,986
Security services	36,601	35,424
Repair and maintenance	23,857	7,551
Rental expenses	15,841	14,941
Audit and legal services	8,148	1,888
Material expenses	7,563	4,176
Telecom services	6,497	5,453
Depreciation	4,927	3,024
Other expenses	35,840	16,670
	589,835	**495,547**

(in thousands of Russian Roubles unless otherwise stated)

27 Employee benefit expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Wages and salaries	727,586	618,678
Social fund expenses	157,521	106,220
Retirement benefit plan	921	50,866
	886,028	**775,764**

See Note 18 for retirement benefit obligation.

28 Other operating expenses, net

	Year ended 31 December 2011	Year ended 31 December 2010
Allowance for accounts receivable,	73,640	(29,200)
Loss on disposal of property, plant and equipment	58,653	20,940
Write-off of property, plant and equipment	54,815	209,584
Social infrastructure expenses	53,870	20,579
Write-off of accounts receivable	16,492	211,110
Write-off of input VAT	1,166	80,665
Tax fines and penalties	1,121	15,611
Gain on accounts payable written-off	(67,055)	(73,874)
Provision for obsolete inventory, net	(4,205)	17,770
Gain on the legal cases	(1,424)	(107,949)
Other income, net	(11,438)	(15,851)
	175,635	**349,385**

Reversal of accounts payable written-off represents income of RUB 67,055 recorded due to write-off of accounts payable. Payables are released due to expiration of the limitation period.

Write-off of accounts receivables includes expense of RUB 42,022 in respect of OJSC “Sakhatransneftegaz”

Social infrastructure expenses include expense in amount of RUB 31,801 related to building of stadium in Kysil-Syr.

Write-off of property, plant and equipments includes expense to write off construction in progress in the amount of RUB 54,815. Those are representing infrastructure assets, warehouse facilities and gas wells. The write-off reflects the management's assessment that these assets will not be used for further Group’s development.

Provision for obsolete inventory relates to partly reversal of 2010 provision.

(in thousands of Russian Roubles unless otherwise stated)

29 Finance income and expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Interest income – third parties	17,572	6,187
Other finance income	22,934	164
Total finance income	**40,506**	**6,351**
Interest expense - related parties	-	(50,596)
Interest expense - third parties	(121,787)	(107,440)
Other finance expense	(31,065)	(20,714)
Total finance expense	**(152,852)**	**(178,750)**
	(112,346)	**(172,399)**

Interest in amount of RUB 2,599 (2010: RUB 11,047) was capitalised in exploration license for Mayskiy area. Capitalisation rate in 2011 was 6%.

30 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss comprises the following:

	Year ended 31 December 2011	Year ended 31 December 2010
Current tax	217,599	103,289
Deferred tax	1,687	56,249
Income tax expense for the year	**219,286**	**159,538**

(b) Reconciliation between the tax expense and profit multiplied by applicable tax rate

The income tax rate applicable to the Group's 2011 and 2010 income is 20%. The reconciliation between the expected and the actual taxation charge is provided below.

	Year ended 31 December 2011	Year ended 31 December 2010
Profit before tax	1,023,310	561,740
Theoretical tax charge at statutory rate of 20%:	204,662	112,348
Tax effect of items which are not deductible or assessable for taxation purposes	10,504	67,492
Correction of prior year deferred tax	-	(21,522)
Other	4,120	1,220
Income tax recognized in profit	**219,286**	**159,538**
Deferred tax on actuarial losses recognized in Other comprehensive income	7,947	-
Total income tax expense for the year	**227,233**	**159,538**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

(in thousands of Russian Roubles unless otherwise stated)

30 Income Taxes (continued)

The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2010: 20%).

	1 January 2011	Charged/ (credited) to comprehensive income	31 December 2011
Tax effect of (deductible)/taxable temporary differences			
Property, plant and equipment	377,241	(138,744)	238,497
Non-current investments and other financial assets	(6,963)	811	(6,152)
Accounts receivable	(144,983)	137,126	(7,857)
Accounts payable	1,570	4,492	6,062
Inventories	18,081	(18,603)	(522)
Other	(7,363)	8,658	1,295
Net deferred tax liability	**237,583**	**(6,260)**	**231,323**
Deferred tax charged to profit/(loss)		1,687	
Deferred tax charged to other comprehensive income		(7,947)	

The tax effect of the movements in the temporary differences for the year ended 31 December 2010 are:

	1 January 2010	Charged/ (credited) to comprehensive income	31 December 2010
Tax effect of (deductible)/taxable temporary differences			
Property, plant and equipment	250,658	126,583	377,241
Non-current investments and other financial assets	(7,873)	910	(6,963)
Accounts receivable	(95,668)	(49,315)	(144,983)
Accounts payable	20,539	(18,969)	1,570
Inventories	28,342	(10,261)	18,081
Other	(14,664)	7,301	(7,363)
Net deferred tax liability	**181,334**	**56,249**	**237,583**
Deferred tax charged to profit/(loss)		56,249	
Deferred tax charged to other comprehensive income		-	

All changes in deferred tax balances were recognised in profit or loss. Group's deferred tax assets and liabilities are recoverable after more than 12 months.

(in thousands of Russian Roubles unless otherwise stated)

31 Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Remuneration of key management personnel in 2011 amounted to RUB 104,804 (2010: RUB 98,499). All balances represent short-term employee benefits.

Included in financial statements are the following transactions and balances with related parties where there is joint control and/or significant influence over the Group (transactions with parent company):

	Year ended 31 December 2011	Year ended 31 December 2010
Interest income	2,343	-
Interest expense	-	50,596

No outstanding balances with related parties are to be settled within 12 months in cash. None of the balances are secured.

Included in financial statements are the following transactions and balances with other related parties:

	Year ended 31 December 2011	Year ended 31 December 2010
Income from guarantees issued	8,986	-
Interest income	2,959	3,065
Other income	745	-
Total income	**12,690**	**3,065**
Services received	47,597	9,541
Rent expense	2,402	2,065
Other expenses	547	-
Total expenses	**50,546**	**11,606**

	31 December 2011	31 December 2010
Amounts receivable	12,348	408
Amounts payable	497	13,030

	31 December 2011	31 December 2010
Loans and borrowings received	1,500	-
Loans and borrowings issued	110,500	61,173

All outstanding balances with related parties are to be settled within 12 months in cash. None of the balances are secured.

31 Balances and Transactions with Related Parties (continued)

At 31 December 2011, other rights and obligations connected to related parties were as follows:

	Other related parties
Guarantees issued by the Group at the year end	**4,551,740**

At 31 December 2010, other rights and obligations connected to related parties were as follows:

	Other related parties
Guarantees issued by the Group at the year end	**5,451,976**

Pricing policies

Related party transactions are priced in accordance with the market terms.

32 Contingent liabilities, commitments and other risks

Litigation

In the normal course of business the Group may be a party to legal actions. Management of the Group is unaware of any actual, pending or threatened claims as at the signing date of these financial statements, which would have a material impact on the Group.

Taxation contingencies in the Russian Federation

The Russian Federation currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax, payment to social funds, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems. Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Environmental matters

The Group has operated in oil and gas industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being considered. The Group periodically evaluates its obligation under environmental regulations.

32 Contingent liabilities, commitments and other risks (continued)

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Insurances

The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed for these risks for which it does not have insurance.

Russian Federation risk

The economy of the Russian Federation, while deemed to be of market status, continues to display certain traits consistent with that of an emerging market. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls. The continued success and stability of the Russian economy will be subject to the Government's continued actions with regard to supervisory, legal and economic reforms.

The operations and earnings of the Group continue, from time to time, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation.

Capital expenditure commitments

As of 31 December 2011 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling RUB 104,471 (2010: RUB 6,215) (excluding VAT).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments

As of 31 December 2011 the Group had an operating lease agreement that, in accordance with the Civil Code, is cancellable upon one month's notice by either party to the contract. Non-cancellable lease rentals under this agreement are equal to RUB 689 after 31 December 2011 (2010: RUB 2,741).

During the year ended 31 December 2011 an amount of RUB 23,552 was recognised as expense in profit or loss in respect of operating leases (2010: RUB 32,890).

Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. As of 31 December 2011 and 2010, the Group has issued a number of guarantees in respect of various counterparties, all of which are determined to be related parties under IAS 24. In the event that the counterparty cannot meet its obligations, the Group will be required to indemnify the lender for the following amounts (also see Note 31):

(in thousands of Russian Roubles unless otherwise stated)

32 Contingent liabilities, commitments and other risks (continued)

Lender	Related Counterparty	Expires	Amount of Guarantee Year ended 31 December 2011	Year ended 31 December 2010
OJSC Promsvyazbank	LLC Stroynovaciya	2013	3,236,345	4,709,566
OJSC Promsvyazbank	LLC Kontact-S	2012 – 2014	32,032	27,199
OJSC Promsvyazbank	LLC Geo Plus	2013	135,377	-
OJSC Promsvyazbank	LLC Transgeoproekt	2013	2,204	-
OJSC Promsvyazbank	LLC Stil-T	2013	31,468	-
OJSC Promsvyazbank	LLC Summa Telecom	2014	163,574	-
OJSC Promsvyazbank	LLC NGD Trade	2014*	-	63,257
OJSC Promsvyazbank	CJSC Stroinovkomplekt	2014*	-	1,954
OJSC Promsvyazbank	LLC Soyuz Trading	2012	700,000	-
OJSC Promsvyazbank	LLC Electrosvyazstroy	2013	250,740	-
OJSC VTB Bank	CJSC SUIproect	2015*	-	650,000
Total guarantees			**4,551,740**	**5,451,976**

*****Guarantees terminated as at 31 December 2011 as a result of complete fulfilment of obligations.

The guarantees relate to the performance by parties related to the sole participant of LLC Investor for certain construction contracts.

The contingent liabilities under performance guarantees issued to third parties in relation to construction contracts are accounted for in accordance with IAS 37, Provisions, contingent liabilities and contingent assets. No liabilities were recorded in relation to these guarantees in 2011 as management believes that the likelihood of future cash-outflows under these performance guarantees is remote.

Assets pledged and restricted

As of 31 December 2011 the Group has the following assets pledged as collateral:

	Note	Year ended 31 December 2011 Asset pledged	Related liability	Year ended 31 December 2010 Asset pledged	Related liability
Property, plant and equipment	**8,17**	96,821	1,446,548	902,242	1,455,584
Total Assets pledged and restricted		**96,821**	**1,446,548**	**902,242**	**1,455,584**

32 Contingent liabilities, commitments and other risks (continued)

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as of 31 December 2011 and 31 December 2010.

33 Events After the Reporting Date

Guarantees issued

Subsequent to 31 December 2011 additional guarantees were issued by the Group under the arrangements discussed in Notes 3, 31 and 32 to these financial statements. The principal amount of these additional obligations is RUB 890,395 thousand. The expiration dates of these guarantees range from 2013 to 2016.

In addition to issuance of guarantees, several guarantees contracts at the total amount of RUB 167,802 thousand expired during January – May 2012.