Open Joint Stock Company Yakutgazprom

International Financial Reporting Standards
Financial statements and
Independent Auditor's Report
as at and for the year ended 31 December 2009

Open Joint Stock Company Yakutgazprom

Contents

The following statement, which should be read in conjunction with the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Open Joint Stock Company "Yakutgazprom" (the "Company").

Management is responsible for the preparation of financial statements that present fairly the financial position of the Company as at 31 December 2009 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls, throughout the Company;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the Russian Federation;
- Taking steps to safeguard the assets of the Company; and
- Detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2009 were approved on 23 July 2010 by:

Andrey Zagorskiy
CEO

Ekaterina Chulanova
CFO

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Open Joint Stock Company "Yakutgazprom":

We have audited the accompanying financial statements of Open Joint Stock Company "Yakutgazprom" (the "Company") which comprise the statement of financial position as at 31 December 2009 and the 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 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

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

Emphases of matter

Going concern

Without qualifying our opinion, we draw attention to Note 5 in the financial statements which indicates that as at 31 December 2009, the Company's current liabilities exceed its current assets by

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RUB 15,936 thousand (31 December 2008: RUB 1,270,927 thousand). Note 5 describes management's strategy for funding the Company's working capital deficiency. This condition indicates the existence of a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern.

Guarantees provided

Without qualifying our opinion, we draw attention to Notes 5, 24 and 28 in the financial statements. The Company has issued guarantees in the amount of RUB 6,366,934 thousand that relate to the performance by parties related to the sole participant of LLC Investor for certain construction contracts. The Company believes these liabilities will not crystallize. However, the inherent uncertainties in the nature of services to be performed by the related party, and the magnitude of these guarantees, represent a material uncertainty.

ZAO PricewaterhouseCoopers Audit

23 July 2010
Moscow, Russian Federation

(in thousands of Russian Roubles)	Notes	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	3,193,756	3,353,082
Long-term receivables	8	38,264	41,323
Total non-current assets		**3,232,020**	**3,394,405**
Current assets			
Inventories	9	213,571	192,034
Trade and other receivables	10	762,097	740,110
Other taxes receivable	11	74,532	78,386
Advances to suppliers and other prepaid expenses	12	33,053	26,465
Short-term loans and interest receivable		14,968	14,667
Cash and cash equivalents		31,401	17,989
Total current assets		**1,129,622**	**1,069,651**
TOTAL ASSETS		**4,361,642**	**4,464,056**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		826,919	826,919
Retained Earnings		1,064,341	938,942
TOTAL EQUITY		**1,891,260**	**1,765,861**
LIABILITIES			
Non-current liabilities			
Borrowings	13	1,062,947	110,120
Deferred income tax liability	14	181,334	151,937
Asset retirement obligations		12,708	9,601
Long-term payables	15	67,836	85,959
Total non-current liabilities		**1,324,825**	**357,617**
Current Liabilities			
Borrowings	13	361,022	1,415,172
Trade and other payables	16	276,872	435,596
Advances from customers		9,690	2,577
Other current liabilities	17	113,157	43,791
Current income tax payable		82,215	66,403
Other taxes payable	11	302,601	377,039
Total current liabilities		**1,145,557**	**2,340,578**
TOTAL LIABILITIES		**2,470,382**	**2,698,195**
TOTAL LIABILITIES AND EQUITY		**4,361,642**	**4,464,056**

The accompanying notes on pages 8 to 32 are an integral part of these financial statements.

(in thousands of Russian Roubles)	Notes	2009	2008
Revenue	18	2,247,901	1,477,202
Cost of sales	19	(889,718)	(682,285)
Gross profit		**1,358,183**	**794,917**
Distribution costs		(17,931)	(23,426)
General and administrative expenses	20	(440,047)	(338,636)
Other expenses, net	21	(381,332)	(142,768)
Operating profit		**518,873**	**290,087**
Net finance costs	22	(211,618)	(100,360)
Profit before income tax		**307,255**	**189,727**
Income tax expense	14	(181,856)	(176,086)
PROFIT FOR THE YEAR		**125,399**	**13,641**
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**125,399**	**13,641**
Earnings per share for profit attributable to the owners of OJSC Yakutgazprom - basic and diluted (in Russian Rubles per share)		0.152	0.016
Weighted average number of shares outstanding – basic and diluted		826,919,375	826,919,375

The accompanying notes on pages 8 to 32 are an integral part of these financial statements.

(in thousands of Russian Roubles)	**Share Capital**	**Retained Earnings**	**Total**
Balance at 1 January 2008	**826,919**	**925,301**	**1,752,220**
Total comprehensive income	-	13,641	13,641
Balance at 31 December 2008	**826,919**	**938,942**	**1,765,861**
Total comprehensive income	-	125,399	125,399
Balance at 31 December 2009	**826,919**	**1,064,341**	**1,891,260**

The accompanying notes on pages 8 to 32 are an integral part of these financial statements.

(in thousands of Russian Roubles)	2009	2008
OPERATING ACTIVITY		
Profit before income tax	**307,255**	**189,727**
Adjustments for:		
Depreciation, depletion and amortisation	81,090	87,668
Loss on disposal, write-off and impairment of property, plant and equipment	130,020	295,184
Finance costs, net	211,618	100,360
Change in provision for obsolete inventory	18,956	8,394
Change in provision, write-off of trade and other receivables	220,935	94,932
Unused vacation, accretion expense	34,389	-
Operating cash flow before movements in working capital	**969,874**	**776,265**
Increase in trade and other receivables	(242,898)	(202,328)
(Increase)/decrease in inventories	(40,493)	18,540
Decrease in trade and other payables	(56,572)	(839,627)
Cash provided by/(used in) operations	**629,911**	**(247,150)**
Income tax paid	(199,184)	(43,533)
Interest paid	(116,799)	(5,084)
Net cash provided by/(used in) operating activities	**313,928**	**(295,767)**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(84,720)	(662,173)
Proceeds from disposal of property, plant and equipment	1,245	984
Purchase of loans /investments long- and short-term	(150)	-
Proceeds from disposal of loans/investments long- and short-term	-	11,125
Net cash used in investing activities	**(83,625)**	**(650,064)**
FINANCING ACTIVITIES		
Proceeds from borrowings	120,000	1,515,642
Repayment of borrowings	(336,892)	(554,560)
Net cash (used in)/provided by financing activities	**(216,892)**	**961,082**
Net increase in cash and cash equivalents	**13,412**	**15,251**
Cash and cash equivalents at the beginning of the year	**17,989**	**2,738**
Cash and cash equivalents at the end of the year	**31,401**	**17,989**

The accompanying notes on pages 8 to 32 are an integral part of these financial statements.

1. GENERAL INFORMATION

The principal activity of Open Joint Stock Company "Yakutgazprom" ("Yakutgazprom" or the "Company") 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 500 km fromYakutsk, the capital of the Republic of Sakha (Yakutia).

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

The average number of employees in 2009 was 855 (2008: 846).

The Company's major shareholders as at 31 December 2009 are as follows: LLC "Investor" (28.85%), LLC "Nautilus" (23.5%), LLC "Profit Land" (23.5%), OJSC "Sakhaneftegaz" (15.3%), LLC "Stroinzhgrup" (6.92%). The remaining 1.93% is owned by a number of smaller parties and individuals. The Company's shares are traded on the Russian Trading System.

The Company's major shareholders as at 31 December 2008 were as follows: LLC "Slavia" (75.85%) and OJSC NNGK Sakhaneftegaz (22.22%).

The shareholders in the Company have voting rights proportionate to their ownership interests as stated in the Company's charter documentation and are eligible for their proportionate distribution of earnings available in accordance with Russian statutory accounting regulations. All shares are authorised and fully paid.

2. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Certain new standards and interpretations became effective for the Company from 1 January 2009:

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The adoption of IFRS 8 has resulted in new disclosure of information related to operating segments.

IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method.

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Company has elected to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a balance sheet (Statement of Financial Position) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Company's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes effective from 1 January 2009 relate to the following areas: possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have an impact on these financial statements.

***Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment*.** The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements.

***Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment*.** The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these financial statements.

***IFRIC 13, Customer Loyalty Programmes*.** IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The amendment did not have an impact on these financial statements.

***IFRIC 15, Agreements for the Construction of Real Estate*.** The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment did not have a material impact on these financial statements.

***Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment, issued in May 2008*.** The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendment did not have an impact on these financial statements.

***Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009*.** The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

***Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009*.** The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit orloss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these financial statements.

The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability and therefore is not applicable to the Company.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Company's financial statements.

3. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods and which the Company has not early adopted:

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Company's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Company's financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. IFRIC 19 is not expected to have any impact on the Company's financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Company does not expect the amended standard to have a material effect on its financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Company as it does not expect a business combination to occur.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Company's financial statements as the Company does not apply hedge accounting.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard does not have any effect on its financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Company does not expect the amendments to have any material effect on its financial statements.

Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards,* which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The Company does not expect the amendments to have any material effect on its financial statements.

Amendment to IAS 24, 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. The Company does not expect the amendment to have a material effect on the financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

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

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

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

- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Company from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised

IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Company's financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Company does not expect the amended interpretation to have an effect on its financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment is not expected to have any impact on the Company's financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Company's financial statements.

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

Functional and presentation currencies

All of the Company's operations are based in the Russian Federation and substantially all of its cash flows are denominated and settled in Russian Rubles, accordingly management has determined the functional currency of the Company 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.

Property, plant and equipment

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

The Company has recorded property, plant and equipment at fair value at the date of transition to IFRS and treated fair value as the deemed cost from that date.

To arrive at the fair value of property, plant and equipment as of the date of transition to IFRS, the Company used valuation performed by an independent professionally qualified appraiser. The effective date of the valuation was 1 January 2006.

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.

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	1-19

The residual value of assets is the estimated amount that the Company 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.

Major renewals and improvements are capitalised. Repairs and maintenance not leading to an extension of service life or used as a way of maintaining it, and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of the asset beyond its original capability.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Oil and gas properties

The Company follows the successful efforts method of accounting for oil and gas exploration costs and has adopted *IFRS 6 Exploration for and Evaluation of Mineral Resources.* Costs capitalised as oil and gas properties include: property acquisitions, costs of production equipment, development cost for proven reserves, 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 Company 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 (for the Mastakh field the initial license expires on 31 December 2035 and the Srednevilyuy field on 31 December 2017) 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.

Impairment of tangible assets

At each reporting date, the Company 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 Company 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 fair value less cost to sell and 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.

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 brining 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. Where the net realisable value is lower than costs, an allowance for obsolete and slow-moving inventory is recognised.

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.

Financial assets

All of the Company's financial assets are classified into loans and receivables category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Company's loans and receivables include cash and cash equivalents, trade receivables, loans, promissory notes of third-parties and other receivables. These financial instruments are initially recorded at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset, or, where appropriate, a shorter period.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the assets have been impacted. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account and impairment of other financial assets at amortised cost are recognised in profit or loss (at "Other expenses, net" line).

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, the previously recognised impairment loss is reversed through the profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

All of the Company's financial liabilities are classified into other financial liabilities category which includes borrowings, promissory notes, trade and other payables. These financial liabilities are initially recorded at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Operating leases

Where the Company is a lessee in a lease which does not transfer substantially all risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. The lease term is a 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.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Employee benefit obligations

Remuneration to employees, including unused vacation and bonuses; and appropriate accruals of unified social tax ("UST") in respect of services rendered during reporting period is recognised as an expense in the period when it was incurred.

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

In the Russian Federation all obligatory social contributions, including contributions to the Russian Federation State Pension Fund, are collected through UST calculated by the application of a regressive rate from 26% to 2% of the annual gross remuneration of each employee. UST is allocated to three state social funds, including the Russian Federation State Pension Fund at the rates varying from 20% to 2% of the annual gross remuneration of each employee.

The company does not operate any other pension plans. Payments to the fund are recognised as an expense as incurred.

Asset retirement obligations

Future asset retirement cost discounted to net present value, are capitalised and corresponding asset retirement obligations raised as soon as the legal or constrictive obligation to incur such expenditures arises and the future asset retirement costs can be reliably estimated. Asset retirement assets are amortised on a unit-of-production method over the life of the wells. The unwinding of the asset retirement obligation is included in profit or loss. Asset retirement obligations are periodically reviewed in light of current laws and regulations and appropriate adjustments made as necessary.

Income Tax

The income tax expense for the period comprises current and deferred tax.
Income tax is recognised as an expense or income in the statement of comprehensive income, except when they relate to items recognised in other comprehensive income, in which case the tax is also recognised in other comprehensive income.

Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the reporting date in the Russian Federation.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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 Company agrees to transport goods to a specific location, revenue is recognised when the goods are passed to the customer at the destination point.

Natural gas prices in the Russian Federation are established mainly by the Federal Tariff Service. 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.

Mutual cancellation and other non-cash transactions

Some settlements are transacted through non-cash transactions (mutual cancellations) or other non-cash settlements. Non-cash transactions have been excluded from the cash flow statement. Investing and financing activities and the total of operating activities represent actual cash flows.

Reclassification of prior year comparatives

Change in promissory notes and loans issued balances was presented in 2008 Statement of Cash Flows as "(Gain)/loss on disposal/write-off of loans/investments long- and short-term" within investing activity cash flows. As it related to change in loans and receivables as part of the amicable agreement with OJSC Rosneft, the amount (RUB 98,869 thousand) has been reclassified as "Increase in trade and other receivables" in Operating activity cash flows.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Going concern

At 31 December 2009, the Company had a working capital deficiency of RUB 15,936 thousand (31 December 2008: RUB 1,270,927 thousand). The working capital deficiency includes short term credit facilities which are repayable within twelve months from the year end reporting date. Management believes that the probability that major creditors of the Company will demand early repayment of outstanding amounts solely because of the working capital deficiency is low. Management believes that it is taking all necessary actions to allow the Company to meet its current obligations as they fall due. These include, but are not limited to continuous discussion with banks and participants of the entity, preparation and monitoring of detailed cash flow forecast and budgets and monitoring of compliance with loan covenants.

As there is a material uncertainty related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include any adjustments relating to the realisation of assets and liquidation of liabilities that might be necessary should the Company be unable to continue as a going concern.

Guarantees provided

In addition, the Company has provided guarantees amounting to RUB 6,366,934 thousand; RUB 650,000 prior to 31 December 2009, and the remainder thereafter (see Notes 24 and 28). These guarantees exceed the value of the Company'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 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 guarantee's, represent a material uncertainty.

Management monitors fulfilment of 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Income taxes

Significant judgement is required in determining the Company 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 Company 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 Company at the end of the operating life of certain of the Company's facilities and properties are recognised when the Company 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.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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 2009 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 2009. Please see Note 7 for additional information.

Renewal of existing licenses for gas and gas condensate production

Based on the Company'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 license were previously renewed in 2005. If depreciation and depletion for 2009 is calculated based on license expiration terms it would total RUB 234,796 thousand.

Useful lives and residual values of property, plant and equipment

Useful lives of non oil and gas property, plant and equipment is reviewed by management periodically. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Company.

The assets' residual values are reviewed and adjusted if appropriate, at the end of each reporting period.

Depletion of oil and gas properties

The Company'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 Company 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.

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.

6. SEGMENT INFORMATION

Starting from 1 January 2009, the Company 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 Company is organised on the basis of three main business segments:

- Production – representing sale of natural gas, stable gas condensate and heavy heating oil; prices for natural gas and heavy heating oil are regulated by the Federal Tariff Service and Regional Tariff Service, accordingly.
- Refining – representing sales of refined products: gasoline and diesel fuel;
- All other segments 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 Company'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 profit or loss, assets and liabilities

The CODM evaluates performance of each segment based on revenues under Russian Standards of Accounting (RSA). Segment expenses are analysed in aggregate. Information on segment assets and liabilities is not reported and used by the CODM. Information for 2008 is not presented by the Company as Management considered the sale of condensate to represent the disposal of a by product of gas production and accordingly had determined the Company to have a single segment – gas and gas condensate production.

(in thousands of Russian Roubles unless notes otherwise)

	Production	Refining	All other segments	Total Company
Year ended 31 December 2009				
Revenue from external customers	1,927,879	327,310	23,597	2,278,786
Intersegment revenue	-	-	-	-
Total revenue (RSA)	**1,927,879**	**327,310**	**23,597**	**2,278,786**
EBITDA (RSA)*				**811,905**

* EBITDA – Earnings before interest, tax, depreciation and amortisation, calculated as gross profit under RSA before depreciation.

A reconciliation of the reportable segment revenues to the Financial statements for the year ended 31 December 2009 is provided as follows:

	Year ended 31 December 2009
Total revenues from reportable segments (RSA)	**2,278,786**
Excise tax on gasoline and other	(30,885)
Total revenue (IFRS)	**2,247,901**

A reconciliation of the reportable segments results to the Financial statements for the year ended 31 December 2009 is provided as follows:

	Year ended 31 December 2009
EBITDA for reportable segments (RSA)	**811,905**
Impairment charge related to property, plant and equipment (Note 7)	(21,961)
Impairment charge and write-off of accounts receivable (Note 10)	(189,505)
Impairment charge related to inventory (Note 9)	(18,957)
Depreciation and depletion (under IFRS) (Note 7)	(81,090)
Provision for unused vacation (Note 17)	(31,282)
Net finance costs	(211,618)
Other	49,763
Profit before income tax (IFRS)	**307,255**

The Company's activity is located only on the territory of the Republic of Sakha (Yakutia). Information on major customers is provided in Note 25.

7. PROPERTY, PLANT AND EQUIPMENT

Cost	Oil and gas properties	Buildings and structures	Machinery and equipment	Transport and other assets	Capital construction in progress	Total
Balance at 1 January 2008	**1,560,948**	**977,978**	**174,060**	**187,512**	**331,938**	**3,232,436**
Additions	369,357	-	1,608	6,275	284,933	**662,173**
Disposals	(17,500)	(183,962)	(22,165)	(64,861)	(15,950)	**(304,437)**
Impairment					(27,156)	**(27,156)**
Transfers	22,364	7,796	-	-	(30,160)	**-**
Decomissioning, net change	9,601	-	-	-	-	**9,601**
Balance at 1 January 2009	**1,944,770**	**801,812**	**153,504**	**128,926**	**543,606**	**3,572,617**
Additions	-	19,171	26,370	11,580	38,162	**95,283**
Disposals	(24,858)	(99,805)	(296)	(609)	(34,560)	**(160,129)**
Impairment	-	-	-	-	(21,961)	**(21,961)**
Transfers	2,879	23	-	-	(2,902)	**-**
Balance at 31 December 2009	**1,922,791**	**721,201**	**179,578**	**139,897**	**522,344**	**3,485,811**

(in thousands of Russian Roubles unless notes otherwise)

Cost	Oil and gas properties	Buildings and structures	Machinery and equipment	Transport and other assets	Capital construction in progress	Total
	Accumulated Depreciation and Depletion					
Balance at 1 January 2008	**(52,645)**	**(51,347)**	**(29,776)**	**(33,524)**	**-**	**(167,292)**
Charge for the year	(32,582)	(26,906)	(15,940)	(12,240)	-	**(87,668)**
Disposals	498	15,023	6,174	13,730	-	**35,425**
Balance at 1 January 2009	**(84,729)**	**(63,230)**	**(39,542)**	**(32,034)**	**-**	**(219,535)**
Charge for the year	(36,011)	(22,173)	(8,928)	(13,978)	-	**(81,090)**
Disposals	611	6,921	120	918	-	**8,570**
Balance at 31 December 2009	**(120,129)**	**(78,482)**	**(48,350)**	**(45,094)**	**-**	**(292,055)**
Net book value at 1 January 2008	**1,860,041**	**738,581**	**113,961**	**96,893**	**543,606**	**3,353,082**
Net book value at 31 December 2009	**1,802,662**	**642,719**	**131,228**	**94,803**	**522,344**	**3,193,756**

Cost of fully depreciated property, plant and equipment items still in use amounted to RUB 830 thousand as of 31 December 2009 (31 December 2008: RUB 367 thousand).

8. LONG-TERM RECEIVABLES

Long-term receivables comprise RUB denominated interest-free promissory notes issued by third-parties maturing in 2010-2018. Those are stated at amortised cost using discount rate of 10 percent. The whole amount is neither past due nor impaired.

9. INVENTORIES

	31 December 2009	31 December 2008
Materials and supplies	194,378	174,254
Natural gas and hydrocarbon fuels	46,544	26,175
Provision for obsolete inventory related to materials and supplies	(27,351)	(8,395)
Total	**213,571**	**192,034**

10. TRADE AND OTHER RECEIVABLES

	31 December 2009	31 December 2008
Trade accounts receivable	597,974	518,854
Other receivables	591,549	450,276
Allowance for doubtful debts	(427,426)	(229,020)
Total	**762,097**	**740,110**

Other receivables balances relate to amounts receivable under court decisions. Major balances relate to LLC NK YAKOL and OJSC NNGK Sakhaneftegaz currently undergoing bankruptcy procedures. An allowance in the amount of RUB 399,113 thousand has been accrued in relation to Other receivables (31 December 2008: RUB 133,832 thousand).

Neither past due nor impaired receivables as of 31 December 2009 totalled RUB 575,112 thousand (31 December 2008: RUB 687,054 thousand).

Ageing of past due but not impaired trade and other receivables:

	31 December 2009	31 December 2008
from 30 days to 180 days	10,968	41,127
180 and more days	25,000	-
Total	**35,968**	**41,127**

Movement in the allowance for doubtful debt in respect of trade and other receivables:

(in thousands of Russian Roubles unless notes otherwise)

	31 December 2009	31 December 2008
Balance at beginning of the year	**(229,020)**	**(148,865)**
Recognised in profit or loss	(198,406)	(80,155)
Balance at end of the year	**(427,426)**	**(229,020)**

Ageing of impaired trade and other receivables:

	31 December 2009	31 December 2008
Due from three to six months	-	-
Due from six months to twelve months	18,158	10,600
Thereafter	560,285	230,349
Total	**578,443**	**240,949**

All balances are denominated in RUB.

11. OTHER TAXES

Other taxes receivable

Included in other taxes receivable as of 31 December 2009 is input VAT in the amount of RUB 68,868 thousand (31 December 2008: RUB 69,010 thousand).

Other taxes payable

	31 December 2009	31 December 2008
VAT	161,918	227,505
Extraction tax	44,433	59,938
Excise tax	16,607	22,440
Property tax	16,466	5,147
Fines and penalties	-	1,330
Other taxes	63,177	60,679
Total	**302,601**	**377,039**

12. ADVANCES TO SUPPLIERS AND OTHER PREPAID EXPENSES

	31 December 2009	31 December 2008
Advances to suppliers	21,498	19,561
Prepaid expenses	12,424	11,927
Allowance for unrecoverable amounts	(869)	(5,023)
Total	**33,053**	**26,465**

13. BORROWINGS

	31 December 2009	31 December 2008
Long-term borrowings - related parties		
LLC Investor	829,397	-
Interest payable	159,021	50,702
Long-term borrowings - third parties		
Sofrakht-Invest	163,000	-
Fund "SAPI"	54,553	59,418
CJSC Yukos-M	-	10,000
Interest payable	30,797	4,838
Less: current portion	(173,821)	(14,838)
Total long-term borrowings	**1,062,947**	**110,120**
Short-term borrowings - related parties		
LLC Investor	-	894,897
Interest payable	-	52,432
Short-term borrowings - third parties		
Sovfrakht-Primorsk	120,000	-
OJSC NK Rosneft	-	248,000

(in thousands of Russian Roubles unless notes otherwise)

	31 December 2009	31 December 2008
Rosneftegazeksport	-	66,300
Sovfrakht-Invest	-	25,800
Other	-	2,153
Interest payable	67,201	110,752
Current portion of long-term borrowings	173,821	14,838
Total short-term borrowings	**361,022**	**1,415,172**

All borrowings are RUB – denominated.

Included in the Company's statement of financial position are a number of loans from LLC Investor, significant shareholder of the Company. Debt bears interest at 20 percent. On inception all loans were short-term, but subsequently the repayment date was extended to 1 January 2012. The loans were partly repaid ahead-of-schedule during January-May 2010 and those amounts have been classified as current portion of LT debt in these financial statements.

Included in the Company's statement of financial position are two loans from LLC Sovfrakht-Invest. The loans bear interest at 20 percent. On inception the loans were short-term, but subsequently the repayment date was extended till 1 January 2012.

The loan payable to Fund "SAPI" is repayable on 31 December 2012, and bears no interest. The debt is stated at amortised cost using the discount rate of 10 percent.

The loan payable to CJSC Yukos-M had an initial maturity date of 31 December 2005, but due to the dismantling of Yukos and the subsequent distribution of assets, this loan was repaid only in 2009. This loan bore interest at 13%.

The loan payable to CJSC Sovfrakht-Primorsk is repayable on 26 February 2010 and bears interest at 20 percent.

The loan payable to OJSC NK Rosneft represented a transfer of a number of loans payable to OJSC NK Yukos as OJSC NK Rosneft became OJSC NK Yukos's legal successor.

The loans payable to LLC Rosneftegazeksport were repayable during 2009 and bore interest from 15 to 20 percent.

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

	31 December 2009	31 December 2008
Due within three months	174,646	427,870
Due from three to six months	132,671	710,468
Due from six months to twelve months	53,705	276,834
Total current portion repayable in one year	**361,022**	**1,415,172**
Due in the second year	-	-
Due thereafter	1,079,435	121,743
Total	**1,440,457**	**1,536,915**

14. INCOME TAX

	2009	2008
Current tax expense	152,460	91,638
Deferred tax expense	29,396	84,448
Income tax expense	**181,856**	**176,086**

In 2008, the Government of the Russian Federation enacted a change in the Russian corporate income tax rate from 24% to 20%. The new corporate income tax rates became effective from 1 January 2009.

(in thousands of Russian Roubles unless notes otherwise)

The following presents a reconciliation of theoretical income tax calculated at the rate effective in the Russian Federation (20%) to the amount of actual income tax expense recorded in the statement of comprehensive income:

	2009	2008
Profit before tax	**307,255**	**189,727**
Theoretical income tax expense (at 20%: 2009; at 24%: 2008)	61,451	45,534
Effect on deferred taxes of reduction in tax rate	-	(11,248)
Correction of PY DT	(25,323)	-
Effect of non-deductible items	145,728	141,800
Income tax expense	**181,856**	**176,086**

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

	31 December 2009	31 December 2008	31 December 2007
Property, plant and equipment	250,658	309,839	227,554
Long-term loans and investments	(7,873)	(105,248)	(139,248)
Accounts receivable	(95,668)	(73,185)	(44,682)
Accounts payable	20,539	7,580	9,484
Inventory	28,342	-	-
Other	(14,664)	12,951	14,381
Total – Deferred tax liability	**181,334**	**151,937**	**67,489**

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

15. LONG-TERM PAYABLES

Long-term payables as of 31 December 2009 comprise restructured taxes payable during 2011.

16. TRADE AND OTHER PAYABLES

	31 December 2009	31 December 2008
Trade accounts payable	162,992	198,569
Promissory notes	75,455	-
Other payables	38,425	237,027
Total	**276,872**	**435,596**

Included in Accounts payable balance as of 31 December 2009 are Company's promissory notes maturing in December 2010.

Other payables relate to amounts payable under court decisions.

The average credit period on purchase of majority of inventories and substantial portion of services on the territory of the Russian Federation is 30 days (2008: 30 days). No interest is charged on the outstanding balance for trade and other payables during the credit period.

Trade and other payable balances are denominated in RUB.

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

	31 December 2009	31 December 2008
Due within three months	193,872	434,108
Due from three to six months	-	1,215
Due from six months to twelve months	83,000	273
Total	**276,872**	**435,596**

(in thousands of Russian Roubles unless notes otherwise)

17. OTHER CURRENT LIABILITIES

	31 December 2009	31 December 2008
Wages and salaries payable	62,335	24,251
Provision for unused vacation	50,822	19,540
Total	**113,157**	**43,791**

18. REVENUES

	2009	2008
Sales – gas	1,658,694	1,218,906
Sales – gas condensate and heavy fuel oil	268,166	224,705
Sales – refined products	287,164	33,591
Sales – other	33,877	101,070
Total	**2,247,901**	**1,477,202**

19. COST OF SALES

	2009	2008
Labour costs	248,222	217,375
Unified production tax	206,592	203,153
Raw materials	198,788	43,439
Depreciation, depletion and amortisation	81,800	87,668
Property tax	66,971	24,892
Repair and maintenance	54,830	41,910
Other production costs	32,515	63,848
Total	**889,718**	**682,285**

20. GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008
Labour costs	344,715	217,880
Security services	31,086	19,763
Rent expenses	11,930	7,574
Consulting and professional services	16,157	27,433
Repair and maintenance	9,451	2,592
Other expenses	26,708	63,394
Total	**440,047**	**338,636**

21. OTHER EXPENSES, NET

	2009	2008
Loss on disposal of property, plant and equipment	108,059	295,184
Gain on accounts payable writen-off	(182,931)	(320,803)
Impairment and write-off of accounts receivable	189,505	84,138
Impairment of PP&E	21,961	25,453
Write-off of input VAT	11,549	35,440
Social infrastructure expenses	27,050	20,932
Provision for obsolete inventory	27,351	8,394
Tax fines and penalties	24,876	91,915
Information, legal and consulting services	69,737	-
Other expenses/(income), net	84,175	(97,885)
Total	**381,332**	**142,768**

In 2009 the Company's expenses on impairment and income from reversal of impairment related to promissory notes and loans issued are included in Other expenses, net. To comply with current year classification comparative amounts were adjusted accordingly and comparative balance was reduced by RUB 47,064 thousand. The reclassification was done due to change in the Company's accounting policy.

(in thousands of Russian Roubles unless notes otherwise)

22. NET FINANCE COSTS

	2009	2008
Interest expense - related parties	159,021	57,310
Interest expense - third parties	63,224	46,436
Other interest, net	(10,627)	(3,386)
Total	**211,618**	**100,360**

No interest was capitalised as part of the construction cost of property, plant and equipment during the period as the Company did not construct any qualifying assets in the period.

23. RELATED PARTIES

Related parties include shareholders, affiliates and entities under common ownership and control with the Company and members of key management personnel.

Remuneration of key management personnel in 2009 amounted to RUB 88,722 thousand (2008: RUB 35,284 thousand). 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 Company:

	2009	2008
Revenue	8	60,233
Expense	8,721	57,310

	31 December 2009	31 December 2008
Amounts receivable	14,680	263,253
Amounts payable	21,214	166,872

	31 December 2009	31 December 2008
Loans and borrowings received	988,418	947,329
Loans and borrowings issued	3,671	-

24. COMMITMENTS AND CONTINGENCIES

Litigation

At the reporting date, the Company has a number of claims and litigation relating to sales and purchases. Management believes none of these claims, individually or in aggregate, will have a material adverse impact on the Company.

Included in Other receivables is balance receivable from OJSC Sakhatransneftegaz in the amount of RUB 42,044 thousand that is currently under court litigation. The claim was filed by the Company due to difference in volumes of gas supplied in 2007 between the Company's data and the one of OJSC Sakhatransneftegaz. The Management believes that negative outcome of the litigation is less than probable.

Guarantees provided

Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. The Company has guaranteed the following obligation:

Name of guarantor	Debtor (principal)	Nature of relationship	31 December 2009	31 December 2008
OJSC Bank VTB	CJSC SUIproekt	Entity controlled by the sole participant of LLC Investor	650,000	-

The guarantee was issued by the Company to VTB under which the Company assures that it will make payments to the bank in the event that CJSC SUIproekt cannot meet its obligations under a construction contract and VTB is required settle those obligations. As discussed in Note 28 to these financial statements, subsequent to year-end, the Company issued a further RUB 5,716,934 thousand in guarantees. The expiration dates of the guarantees range from 2010 to 2015.

No liability has been recorded in respect of these guarantees as the Company is unable to reliably estimate the potential exposure including the amount of any commissions, interest, fines and additional expenses that could be incurred. Management assesses the risk of loss under the contract as remote.

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, UST, 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 Company to additional taxation, fines and penalties that could be significant.

Environmental matters

The Company 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 Company periodically evaluates its obligation under environmental regulations.

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 Company holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Company 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 Company 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.

25. RISK MANAGEMENT ACTIVITIES

The main risks arising from the Company's financial instruments are credit and liquidity risks.

(in thousands of Russian Roubles unless notes otherwise)

Foreign currency risk

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

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Company. The Company does not use any derivatives to manage interest rate risk exposure, at the same time the Company's financial assets and liabilities are at fixed rates and thus risk is limited.

Credit risk

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

For the Company's customers there is independent rating and therefore the Company considers the credit quality of the customer at the contract execution stage. The Company considers the customer's financial position and its credit history. The Company monitors the existing receivable on a continuous basis and takes actions regularly to ensure collection or to minimize losses.

The Company's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances.

The Company'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 2009		31 December 2008	
	Turnover	Outstanding balance	Turnover	Outstanding balance
OJSC Sakhatransneftegaz	2,097,069	600,051	1,449,965	423,717
OJSC NNGK Sakhaneftegaz	10	248,593	365,713	224,608
GUP GKH	296,731	13,479	89,235	24,073
CJSC NK Yakol	11,579	254,672	67,412	243,716
LLC Aleks-99	84,793	7,436	-	-
Total	**2,490,181**	**1,124,231**	**1,973,021**	**936, 484**

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

	2009	2008
Cash and cash equivalents	31,401	17,989
Short term loans and interest receivable	14,968	14,667
Trade and other receivables	762,097	740,110
Long-term loans and receivables	38,263	41,323

Major balances of cash are held in OJSC Sobinbank, its rating by Moody's Investors Service is Baa2.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle all liabilities as they fall due.
The summaries of maturity profile of the Company's financial liabilities as at 31 December 2009 and 2008, based on contractual payments are presented in note 13.

The Company 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 Company uses balanced model of financing of working capital – both at the expense of short-term sources and long-term sources. However, as at 31 December 2009 the Company had working capital deficiency. For more detail see Note 5.

26. MANAGEMENT OF CAPITAL

The Company's capital risk management has as key objectives compliance with the Russian legislation requirements and 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 can not be lower than 1,000 minimum shares on the date of the company'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 at 31 December 2009 the Company was in compliance with the above share capital requirements.

The Company's objectives when managing capital are to safeguard the Company'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 Company managed as at 31 December 2009 was RUB 1,891,259 thousand (31 December 2008: RUB 1,765,861 thousand).

Consistent with others in the oil and gas industry, the Company 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 0.75 as at 31 December 2009 (31 December 2008: 0.86).

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other that in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Management believes that as at 31 December 2009 the carrying values of all significant financial assets and liabilities approximate their fair values.

28. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Additional guarantees provided

Subsequent to 31 December 2009, additional guarantees were issued by the Company under the arrangements discussed in Notes 5 and 28 to these financial statements. The principal amount these additional obligations is RUB 5,716,934 thousand. The expiration dates of these guarantees range from 2010 to 2015.

Acquisition of Tolon field license

On 3 June 2010 the Company acquired a license for geological research, exploration and production of hydrocarbons in Tolon gas and gas condensate field located in Vilyuy and Kobyay uluses for a consideration of RUB 352,000 thousand. Estimated gas reserves C1 under the Russian classification total cubic metres 33.35 billion. The auction was held by Yakutsk Office of Mineral Resources of the Republic of Sakha (Yakutia).

Change of Company's name

On the Annual shareholders meeting 18 June 2010 a decision has been taken to change the Company's came to OJSC "Yakutskaya toplivno-energeticheskaya kompania".

Loan from OJSC Sberbank

Loan agreement with OJSC Sberbank for total amount of RUB 1,000,000 thousand was signed in June 2010.