NTV Group

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2011

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Independent Auditor's Report

To the Shareholders and Board of Directors of Open joint-stock company NTV Broadcasting Company:

We have audited the accompanying consolidated financial statements of Open joint-stock company NTV Broadcasting Company and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

13 April 2012
Moscow, Russian Federation

In thousands of Russian Roubles	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	9	2,866,891	2,072,434
Program rights, long-term	10	10,607,456	8,630,845
Advances		412,295	357,924
Goodwill	11	4,408	4,408
Other intangible assets	10	354,015	284,939
Deferred income tax asset	16	846	6,038
Total non-current assets		**14,245,911**	**11,356,588**
Current assets			
Program rights, short-term	10	184,313	156,520
Advances and other assets	8	3,854,443	3,883,925
Trade receivables	8	780,505	462,111
Current income tax prepayments		27,536	24,477
Financial assets including bank deposits	25	5,183,553	3,013,858
Cash and cash equivalents	7	1,209,619	2,141,258
Total current assets		**11,239,969**	**9,682,149**
Total assets		**25,485,880**	**21,038,737**
EQUITY			
Share capital	12	8,563	8,563
Accumulated translation adjustment		(18,939)	(30,113)
Retained earnings		22,305,156	17,985,942
Equity attributable to the Company's owners		**22,294,780**	**17,964,392**
Non-controlling interest		41,177	-
Total equity		**22,335,957**	**17,964,392**
LIABILITIES			
Non-current liabilities			
Borrowings	13	55,856	89,489
Deferred income tax liability	16	138,818	76,056
Accounts payable	15	35,820	-
Total non-current liabilities		**230,494**	**165,545**
Current liabilities			
Borrowings	13	962,961	1,343,965
Accounts payable	15	1,803,725	1,394,401
Current income tax payable		56,967	35,254
Advances received		95,776	135,180
Total current liabilities		**2,919,429**	**2,908,800**
Total equity and liabilities		**25,485,880**	**21,038,737**

Approved for issue and signed on behalf of the Board of Directors on 13 April 2012:

Vladimir M. Kulistikov	Oleg A. Adamov	Lyubov A. Omelianenko
General Director	First Deputy General Director	Chief Accountant

"Телекомпания НТВ"
Открытое акционерное общество * Москва *

The accompanying notes on pages 5-27 are an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Note	2011	2010
Revenue			
Sales revenue – third parties		20,502,612	16,324,029
Sales revenue – related parties	6	220,195	201,992
Total revenue		**20,722,807**	**16,526,021**
Operating expenses			
Broadcasting expenses	17	(2,325,001)	(2,137,950)
Employee benefits expense	18	(2,847,472)	(2,324,943)
Amortisation of program rights	10	(8,508,494)	(6,329,694)
Amortisation of other intangible assets	10	(122,225)	(63,443)
Impairment loss of program rights and other assets	10	(68,604)	(19,736)
Depreciation	9	(269,291)	(275,799)
Other service costs	19	(135,206)	(114,310)
Selling and marketing costs	20	(1,689,903)	(1,215,889)
Government grants received	14	699,231	697,093
Provision for trade and other receivables	8	4,879	(27,367)
Taxes other than income		(27,377)	(20,813)
Other operating income/(expenses), net	21	(96,692)	4,963
Total operating expenses		**(15,386,155)**	**(11,827,888)**
Operating profit		**5,336,652**	**4,698,133**
Finance income	22	508,920	507,102
Finance costs	23	(298,262)	(539,696)
Profit before income tax		**5,547,310**	**4,665,539**
Income tax expense	16	(1,135,654)	(966,250)
Profit for the year		**4,411,656**	**3,699,289**
Other comprehensive income for the year			
Translation difference		11,174	(8,627)
Total comprehensive income for the year		**4,422,830**	**3,690,662**
Profit/(loss) is attributable to:			
- Owners of the Company		4,413,714	3,699,289
- Non-controlling interest		(2,058)	-
Profit for the year		**4,411,656**	**3,699,289**
Total comprehensive income/(loss) is attributable to:			
- Owners of the Company		4,424,888	3,690,662
- Non-controlling interest		(2,058)	-
Total comprehensive income for the year		**4,422,830**	**3,690,662**

The accompanying notes on pages 5-27 are an integral part of these consolidated financial statements.

		Attributable to owners of the Company						
In thousands of Russian Roubles	**Note**	**Share capital**	**Cumulative translation adjustment**	**Business combi-nation reserve**	**Retained earnings**	**Total**	**Non-cont-rolling interest**	**Total equity**
Balance at 1 January 2010		**8,563**	**(21,486)**	**(150,900)**	**14,500,553**	**14,336,730**	**-**	**14,336,730**
Profit for the year		-	-	-	3,699,289	3,699,289	-	3,699,289
Other comprehensive income:								
Currency translation differences		-	(8,627)	-	-	(8,627)	-	(8,627)
Total comprehensive income for the year		**-**	**(8,627)**	**-**	**3,699,289**	**3,690,662**	**-**	**3,690,662**
Reallocation of reserve	12	-	-	150,900	(150,900)	-	-	-
Dividends	12	-	-	-	(63,000)	(63,000)	-	(63,000)
Balance at 31 December 2010		**8,563**	**(30,113)**	**-**	**17,985,942**	**17,964,392**	**-**	**17,964,392**
Profit for the year		-	-	-	4,413,714	4,413,714	(2,058)	4,411,656
Other comprehensive income:								
Currency translation differences		-	11,174	-	-	11,174	-	11,174
Total comprehensive income for the year		**-**	**11,174**	**-**	**4,413,714**	**4,424,888**	**(2,058)**	**4,422,830**
Acquisition of non-controlling interest		-	-	-	-	-	43,235	43,235
Dividends	12	-	-	-	(94,500)	(94,500)	-	(94,500)
Balance at 31 December 2011		**8,563**	**(18,939)**	**-**	**22,305,156**	**22,294,780**	**41,177**	**22,335,957**

The accompanying notes on pages 5-27 are an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Note	2011	2010
Cash flows from operating activities			
Cash receipts from customers		23,804,845	19,289,238
Cash paid to suppliers		(4,551,638)	(3,781,178)
Cash paid to employees		(2,818,899)	(2,307,205)
Cash payments of taxes other than on income		(23,920)	(23,300)
Government grants received		703,631	700,693
Other income and (expenses), net		(15,917)	(8,152)
Cash generated from operations		**17,098,102**	**13,870,096**
Interest paid		(13,894)	(3,233)
VAT paid		(2,236,335)	(1,875,600)
Income tax paid		(1,039,109)	(917,948)
Net cash from operating activities		**13,808,764**	**11,073,315**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,128,763)	(409,056)
Proceeds from disposal of property, plant and equipment		3,967	1,858
Acquisition of intangible assets		(11,179,376)	(9,775,686)
Deposits returned		5,700,000	4,620,690
Acquisition of subsidiary, net of cash acquired		-	(879,365)
Interest income received		128,914	121,505
Deposits made		(7,806,506)	(5,000,000)
Net cash used in investing activities		**(14,281,764)**	**(11,320,054)**
Cash flows from financing activities			
Proceeds from borrowings		47	24
Repayment of short-term loans		(418,152)	(121,804)
Dividends paid to the Company's shareholders		(94,500)	(60,222)
Net cash used in financing activities		**(512,605)**	**(182,002)**
Effect of exchange rate changes on cash and cash equivalents		53,966	142,260
Net (decrease)/increase in cash		**(985,605)**	**(428,741)**
Cash and cash equivalents at the beginning of the year	7	**2,141,258**	**2,427,739**
Cash and cash equivalents at the end of the year	7	**1,209,619**	**2,141,258**

The accompanying notes on pages 5-27 are an integral part of these consolidated financial statements.

1. The NTV Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 for OJSC NTV Broadcasting Company (the "Company") and its subsidiaries (together referred to as the "Group" or "NTV Group").

The Company is incorporated and domiciled in the Russian Federation. The Company is an open joint stock company and it was set up in accordance with Russian regulations.

Registered address and place of business

The Group's registered address is:
Tverskoy Boulvar, 9, build. 1,
Moscow, Russian Federation 123104.

The Group's principal places of business are:
Akademika Koroleva str., 12,
Moscow, Russian Federation 127427; and

Argunovskaya str., 5
Moscow, Russian Federation 129075.

Shareholders of the Company were as follows:

	31 December 2011	31 December 2010
OJSC Gazprom-Media Holding and its subsidiaries	100%	100%

The ultimate parent and the ultimate controlling party of the Group is Non-state pension fund Gazfond (NPF Gazfond).

The Company's immediate parent is OOO Aura-Media, being a part of the Gazprom-Media Group.

Principal activity

The Group's principal business activity is broadcasting of television programs in the territory of the Russian Federation. The Company holds a license for broadcasting TV programs in the territory of the Russian Federation. In July 2011 the Company's license was renewed until 04 May 2016. The Group generates substantially all of its revenue from sales of television advertising which are placed mainly through agencies.

These consolidated financial statements include financial statements of a number of subsidiaries (a list is provided below) involved in TV broadcasting business and telecasting programs on NTV channel over the territory of the USA and European countries.

The Group comprises the following subsidiaries:

Company	Country of incorporation	Shareholder	Interest in share capital at 31 December, % 2011	2010
NTV-HTB Holding and Finance B.V.	Netherlands	OJSC NTV Broadcasting Company	100%	100%
NTV World Limited	Cyprus	NTV-HTB Holding and Finance B.V.	100%	100%
Art Distribution Inc.	USA	NTV-HTB Holding and Finance B.V.	100%	100%
NTV Global Networks	Israel	NTV Hungary Commercial LLC	100%	100%
NTV Hungary Commercial LLC	Hungary	NTV World Limited	100%	100%
NTV Europa GmbH	Germany	NTV Hungary Commercial LLC	100%	100%
Company Vega-RT CJSC	Russia	OJSC NTV Broadcasting Company	100%	100%
NTV Centre LLC	Russia	OJSC NTV Broadcasting Company	100%	100%
NIVA LLC	Russia	OJSC NTV Broadcasting Company	100%	100%
Stancia LLC	Russia	OJSC NTV Broadcasting Company	51%	-

In October 2011 the Group acquired 51% stake in Stancia LLC.

2. Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation (Note 24).

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. The Group's operating results are dependent on the advertising and media technologies market developments. This is reflected in revised estimates of expected future cash flows in impairment assessments. In 2011 overall media market demonstrated reasonable growth.

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

3. Basis of Preparation and Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by business combinations accounting. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The Group companies domiciled in the Russian Federation maintain their accounts and prepare statements for regulatory purposes in accordance with Russian accounting legislation. Foreign subsidiaries of the Group prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"). The accompanying consolidated financial statements are based on statutory records, which are maintained under the historical cost convention. At each reporting date Group members make appropriate adjustments and reclassifications to their unconsolidated statutory financial statements for the purposes of fair presentation in accordance with IFRS. The accompanying financial statements have been prepared based on those financial statements.

Functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Russian Roubles, which is the Company's functional and presentation currency.

The results and financial position of each group entity – NTV HTV Holding and Finance B.V., NTV World Limited, Art Distribution, NTV Global Networks, NTV Hungary Commercial LLC and NTV Europa GmbH (the functional currency of which is not of a hyperinflationary economy) are translated into the functional currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the reporting date;

(ii) income and expenses for each profit or loss are translated at average exchange rates of the corresponding period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized in other comprehensive income.

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

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

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

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controling interest's proportionate share of net assets of the acquiree.

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

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated, unless the cost cannot be recovered. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

3. Basis of Preparation and Significant Accounting Policies (Continued)

Purchase of companies under common control. Purchase of subsidiaries between parties under common control are accounted for using predecessor basis of accounting method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiary transferred under common control are recognized at predecessor entity's IFRS carrying amounts. Any difference between the carrying amount of net assets and the nominal value of share capital contributed is accounted for in these consolidated financial statements as an adjustment to equity and is presented as 'business combination reserve'.

Property, plant and equipment. Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is derecognized.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the profit or loss for the year. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in the profit or loss for the year.

Depreciation. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Depreciated property	Useful lives in years
Buildings	50
Broadcasting equipment	7-12
Vehicles	5-7
Computers, office equipment and furniture	5-8

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Assets under construction are not depreciated. Depreciation of these assets will begin when the related assets are ready to be placed in service.

Operating lease. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

3. Basis of Preparation and Significant Accounting Policies (Continued)

Intangible assets. All of the Group's intangible assets have definite useful lives and primarily include program rights and broadcasting licenses.

Acquired broadcasting licenses and program rights are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortised either using the straight-line method over their useful lives or a method reflecting the consumption of benefits from using the asset as described below:

Amortisable intangible assets	Terms
Licenses and other intangible assets	Useful lives – 5-10 years
Program rights are amortized depending on the number of airings contracted:	
1 airing	100%
2 airings	65% – the first; 35% – the second
3 airings	50% – the first; 30% – the second; 20% – the third
Programs with chronological and/or topical actualization	100% with the first airing

If the limitation to the number of airings is higher than three or there is no such limitation for a product, amortisation is calculated based on three airings as substantially all of the economic benefit associated with content is derived from the initial airings.

Unamortised program rights expected to be amortised within one year are classified as current assets. Other costs related to program rights are classified as non-current. Management assesses the provision for licenses for program rights, which have more than three years from the last air or which were not aired at all and were bought more than two years ago. This provision is recorded in the profit or loss.

Management periodically reviews the carrying amount of program rights for impairment and when necessary writes down the carrying value to estimated recoverable amount.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Licenses. The TV broadcasting companies of the Group have been registered as mass media. The Group carries out over-the-air television broadcasting under the licenses for terrestrial television broadcasting issued by Russian authorities. These licenses are considered to have definite useful lives and are amortized during that period.

Licenses acquired through business combinations are amortized over the period up to the end of 2015 (Note 4), the year in which transfer from analogue to digital broadcasting is expected to occur in the Russian Federation.

Impairment of non-financial assets. Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Classification of financial assets. The Group classifies its financial assets into the following categories: loans and receivables (including promissory notes and deposits). The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. They are included in the current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables, loans receivable, financial assets including bank deposits, cash and cash equivalents in the statement of financial position (Notes 7, 8).

Loans are recognised initially at the fair value of the cash paid (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, loans are stated at amortised cost using the effective yield method; any difference between fair value of the payment (net of transaction costs) and the receipt amount is recognised as interest income over the period of the loans.

When financial assets are overdue by 45 days the Group performs assessment for impairment.

3. Basis of Preparation and Significant Accounting Policies (Continued)

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation of the countries where the Group's subsidiaries are domiciled, enacted or substantively enacted by the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The income tax charge comprises current tax and deferred tax and is recognized in profit or loss for the year unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect to taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

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

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

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

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

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

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

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

3. Basis of Preparation and Significant Accounting Policies (Continued)

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

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other current highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortized cost using the effective interest method.

Share capital. Ordinary shares are classified as equity.

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

Value added tax. Output value added tax ("VAT") related to sales is payable to the tax authorities at the earlier of (a) receipt of advances from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the reporting date (VAT deferred) is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Government grants. Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of specifically designated program rights are credited to profit or loss as other operating income on the airing of related assets. Government grants relating to broadcasting services are deferred and recognized in the consolidated profit or loss for the year over the period necessary to match them with the costs that they are intended to compensate.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Borrowing costs are recognised as an expense using the effective interest method.

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an interest expense.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Foreign currency translation. Monetary assets and liabilities nominated in currency other than Russian Roubles, are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBRF are recognized in the profit or loss for the year. Translation at year-end rates does not apply to non-monetary items.

Foreign current transactions are translated into the functional currency using the official exchange rate of the Central Bank of the Russian Federation at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss for the year. Foreign exchange gains and losses that relate to borrowings, financial assets including cash equivalents and bank deposits are presented as 'finance income or cost' in the profit or loss for the year. All other foreign exchange gains and losses arising on operating activities in the Group are presented within 'other income/(expenses), net'.

3. Basis of Preparation and Significant Accounting Policies (Continued)

Revenue recognition

Advertising revenue. The Group recognizes advertising revenue when the related advertisement is broadcast. Advertising revenues are recognized net of discounts and VAT. Advertising commission is recognized as an expense.

The Group enters into "up front" contracts in which the Group commits to deliver a specified amount of gross rating points ("GRPs") for its customers. GRPs refer to the sum of individual telecast ratings on a total program basis or advertiser commercial schedule. The Group recognizes revenue based on its actual delivery of GRPs using information provided by TNS Gallup through sales agents.

Sales of program rights. Sales of program rights revenue is recognized when title for the related program rights passes to the customer, as long as collection of receivables is probable. Sales are shown net of VAT and discounts.

Sales of other services. Sales of other services are recognized in the period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognized using the effective interest method.

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

4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Estimated impairment of goodwill and intangible assets. Management believes that the Group represents single cash-generating unit. The Group tests annually whether the goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3. The recoverable amount of cash-generating unit has been determined based on value-in-use calculation. This calculation requires the use of estimates as further detailed in Note 11. At 31 December 2011 the Group tested its long-term intangible assets including program rights and broadcasting licenses, acquired through business combinations. Judgement is required in assessment of the future economic benefit attributable to these particular assets. Management recorded an impairment provision in respect to those assets, which clearly would not bring future benefits comparable to its carrying amount. For impairment loss recorded during the reporting year refer to Note 10.

Amortisation and useful life of certain intangible assets. Based on the program schedule, audience share performance, Gross Rating Points ("GRP") and the future benefit coming from the asset consumption, management estimates the useful life of program rights. This period is reviewed periodically to ensure its continued appropriateness in light of changes in the television advertising market, viewing patterns, NTV programming mix and schedule and NTV networks' audience share.

Licenses acquired. Broadcasting licenses acquired through business combinations have a definite useful life. The Group considers that the useful life is longer than the original license period as the costs to renew the license are not significant to the Group. Management estimates the useful life of such licenses up to the end of 2015, the year of estimated transfer to digital broadcasting.

Provision for impairment of accounts receivable. Judgment is required in determining a provision for impairment of accounts receivable. The Group recognizes a provision for impairment based on estimates of the collectability of receivables.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 24).

Deferred income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances (Note 16).

Tax liability recognition. There are many significant transactions and calculations for which the ultimate tax treatment is uncertain during the ordinary course of business and deferred tax liability recognition is judgemental. The Group discloses liabilities, which may result from anticipated tax inspections, 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 liabilities for current and deferred income tax in the period in which they were recognized (Note 16). As the parent controls the dividend policy of its subsidiaries and it is probable that the temporary difference will not reverse in foreseeable future, the Group does not recognize a deferred tax liability for temporary differences associated with investments in its subsidiaries.

5. Adoption of New or Revised Standards and Interpretations

The following standards and amendments were early adopted by the Group in the prior years:

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).

The following new standards and interpretations became effective for the Group from 1 January 2011:

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: 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 the 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 the requirements for the presentation and content of the statement of changes in equity; 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. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The amendments did not have an impact on the Group.

The following amendments and interpretations did not have any effect on the Group's consolidated financial statements:

- Amendment to IAS 32 – Classification of Rights Issue;
- Amendment to IFRIC 14 – Prepayments of a Minimum Funding Requirement;
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later periods and which the Group has not early adopted:

IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard 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 payments of principal and interest only (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.

5. Adoption of New or Revised Standards and Interpretations (Continued)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is currently assessing the impact of the new standard on its financial statements.

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

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the new standard on its financial statements.

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

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its financial statements.

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

5. Adoption of New or Revised Standards and Interpretations (Continued)

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its financial statements.

Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these financial statements.

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

6. Balances and Transactions with Related Parties

Related parties are defined in IAS 24, Related Party Disclosures. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Company's immediate parent and ultimate controlling party are disclosed in Note 1. OAO Gazprom is disclosed below as 'significant influence'.

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

At 31 December 2011 the outstanding balances with related parties were as follows:

In thousands of Russian Roubles

	NPF Gazfond	OAO Gazprom Bank AB	OOO Gazprom-Media	OAO Gazprom Media Holding and its subsidiaries	OAO Gazprom	Companies under common control of OAO Gazprom
Nature of relationship	**Ultimate controlling company**	**Intermediate parent company**	**Intermediate parent company**	**Companies under common control**	**Significant influence**	**Other related parties**
Trade accounts receivable	-	-	48,762	16	3,000	9
Cash in bank	-	1,024,775	-	-	-	-
Interest receivable on bank deposit	-	61,203	-	-	-	-
Advances issued (short term)	-	-	-	510,271	-	6,014
Bank deposits with maturity more than 3 months (contractual interest rate: for US Dollars – 2.01%, for Euro – 1.75%)	-	1,695,670	-	-	-	-
Bank deposits with maturity more than 3 months (contractual interest rate: or Russian Roubles – 6.51%)	-	3,426,680	-	-	-	-
Borrowings						
- Promissory notes issued (contractual interest rate: 1.5%)	-	-	-	(962,961)	-	-
-Interest payable (contractual interest rate: 6%)				(55,856)		
Accounts payable	-	-	(159,892)	(2,690)	-	(2,811)

6. Balances and Transactions with Related Parties (Continued)

The income and expense items with related parties for the year ended 31 December 2011 were as follows:

In thousands of Russian Roubles

	NPF Gazfond	OAO Gazprom Bank AB	OOO Gazprom-Media	OAO Gazprom Media Holding and its subsidiaries	OAO Gazprom	Companies under common control of OAO Gazprom
Nature of relationship	**Ultimate controlling company**	**Intermediate parent company**	**Intermediate parent company**	**Companies under common control**	**Significant influence**	**Other related parties**
Revenue from advertising services	-	2,542	-	22,564	219,814	13,707
Revenue from other operations	-	-	-	35	381	30
Interest income	-	175,291	-	-	-	-
Broadcasting cost	-	-	-	(1,988)	-	(19,277)
Other employee expenses	(12,770)	-	-	-	-	-
Selling expenses (agency fees)	-	-	(1,300,214)	-	-	-
Bank services	-	(7,810)	-	-	-	-
Net interest expense	-	-	-	(17,039)	-	-
Dividends	-	-	-	(94,500)	-	-

The Group generates its advertising revenue primarily through agencies. Revenue generated through Gazprom-Media, related party, in 2011 amounted to RR 16,244,820 thousand (2010: RR 13,186,162 thousand).

During 2011 NTV Group acquired program rights from related parties as follows:

- ZAO NTV Kino – RR 84,600 thousand (2010: RR 111,600 thousand);
- OAO NTV-PLUS – RR 582,595 thousand (2010: RR 550,090 thousand).

At 31 December 2010 the outstanding balances with related parties were as follows:

In thousands of Russian Roubles

	NPF Gazfond	OAO Gazprom Bank AB	OOO Gazprom-Media	OAO Gazprom Media Holding and its subsidiaries	OAO Gazprom	Companies under common control of OAO Gazprom
Nature of relationship	**Ultimate controlling company**	**Intermediate parent company**	**Intermediate parent company**	**Companies under common control**	**Significant influence**	**Other related parties**
Trade accounts receivable	-	-	73	298	3,500	21
Cash in bank	-	2,041,782	-	-	-	-
Interest receivable on bank deposit	-	13,858	-	-	-	-
Advances issued (short term)	-		-	234,159	-	6,308
Advances issued (long term)	-	-	-	24,000	-	-
Bank deposits with maturity more than 3 months (contractual interest rate: or Russian Roubles – 4.68%)	-	3,000,000	-	-	-	-
Borrowings						
- Promissory notes issued (contractual interest rate: 1.5%)	-	-	-	(1,323,234)	-	-
Accounts payable	-	-	(129,554)	(5,267)	-	(2,376)

The income and expense items with related parties for the year ended 31 December 2010 were as follows:

In thousands of Russian Roubles

	NPF Gazfond	OAO Gazprom Bank AB	OOO Gazprom-Media	OAO Gazprom Media Holding and its subsidiaries	OAO Gazprom	Companies under common control of OAO Gazprom
Nature of relationship	**Ultimate controlling company**	**Intermediate parent company**	**Intermediate parent company**	**Companies under common control**	**Significant influence**	**Other related parties**
Revenue from sales of rights	-	-	-	1,494	-	-
Revenue from advertising services	1,229	5,085	-	23,660	201,992	9,317
Revenue from other operations	-	-	-	83	-	105
Interest income	-	118,653	-	-	-	-
Broadcasting cost	-	-	-	(1,773)	-	(19,346)
Other employee expenses	(8,884)	-	-	-	-	(33,047)
Insurance	-	-	-	-	-	(5,893)
Selling expenses (agency fees)	-	-	(880,974)	-	-	-
Bank services	-	(7,352)	-	-	-	-
Security services	-	-	-	-	-	(24,077)
Net interest expense	-	-	-	(12,342)	-	(1,646)
Dividends	-	-	-	(63,000)	-	-

6. Balances and Transactions with Related Parties (Continued)

Key management compensation. Compensation paid to key management of the Group for their services in full or part time executive management positions is made up of contractual salary and a performance bonus depending on operating results.

Discretionary bonuses may also be payable to key management personnel, which are approved by Board of Directors, provided the Group has achieved established targets. Additional fees, compensation and allowances may be paid to key management personnel for their services in that capacity, and also for attending board meetings.

The remuneration of members of the Board of Directors and key management personnel comprised salaries, discretionary bonuses and other benefits totalling to RR 219,651 thousand (2010: RR 159,679 thousand):

In thousands of Russian Roubles	2011	2010
Remuneration to members of the Board of Directors	80,410	49,585
Remuneration to key management personnel (excluding Board of Directors)		
Including:		
(a) short-term employee benefits	131,965	104,189
(b) other long-term benefits	7,276	5,905
Number of key management personnel	16	18

7. Cash and Cash Equivalents

In thousands of Russian Roubles	31 December 2011	31 December 2010
RR denominated cash on hand and bank balances	31,178	527,728
US Dollars denominated cash on hand and bank balances	120,879	446,562
Euro denominated cash on hand and bank balances	39,362	1,159,393
Cash on hand and bank balances denominated in other currencies	5,096	6,137
US Dollars denominated short-term bank deposit with maturity in January 2012 (interest rate – 1% p. a.)	25,403	-
US Dollars denominated short-term bank deposit with maturity in March 2012 (interest rate – 1.75% p. a.)	17,241	-
Euro denominated short-term bank deposit with maturity in January 2011 (interest rate – 0.6% p. a.)	-	1,438
RR denominated short-term bank deposit with maturity in January 2012 (interest rate – 7.25% p. a.)	100,000	-
RR denominated short-term bank deposit with maturity in February 2012 (interest rate – 4.25% p. a.)	250,000	-
RR denominated short-term bank deposit with maturity in February 2012 (interest rate – 7.25% p. a.)	11,780	-
RR denominated short-term bank deposit with maturity in February 2012 (interest rate – 7.3% p. a.)	196,480	-
RR denominated short-term bank deposit with maturity in March 2012 (interest rate – 4.25% p. a.)	200,000	-
RR denominated short-term bank deposit with maturity in August 2012 (interest rate – 4.6% p. a.)	212,200	-
Total cash and cash equivalents	**1,209,619**	**2,141,258**

8. Trade Receivables, Advances and Other Assets

In thousands of Russian Roubles	31 December 2011	31 December 2010
Trade receivable	803,852	491,949
Less impairment provision	(23,347)	(29,838)
Total financial assets within trade receivables	**780,505**	**462,111**
Advances issued – movies and program rights	3,608,619	3,564,866
Other prepayments	64,607	196,142
Less impairment provision	-	(30,536)
Prepaid taxes	132,524	119,394
Other receivables	25,495	26,154
Other assets	23,198	7,905
Total advances and other assets	**3,854,443**	**3,883,925**

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

In thousands of Russian Roubles	2011	2010
Provision for impairment at 1 January	(60,374)	(59,608)
Recovery of/(provision for) impairment during the year, net	4,879	(27,367)
Amounts written off during the year as uncollectible	32,148	26,601
Provision for impairment at 31 December	**(23,347)**	**(60,374)**

8. Trade and Other Receivables (Continued)

Certain amounts of trade receivables net of impairment loss provisions are denominated in foreign currency as disclosed in the table below:

In thousands of Russian Roubles	30 December 2011	30 December 2010
Russian roubles	539,338	326,174
US dollars	202,302	89,552
Euro	6,511	16,083
Other currencies	32,354	30,302
Total trade receivables	**780,505**	**462,111**

Advances issued denominated in US Dollars amounted to RR 1,204,116 thousand at 31 December 2011 (31 December 2010: RR 1,622,812 thousand).

Analysis by credit quality of trade receivables at 31 December 2011 is as follows:

In thousands of Russian Roubles	Accounts Receivable, related parties	Accounts Receivable, others	Accounts Receivable, total
Neither past due nor impaired	**3,025**	**513,136**	**516,161**
Past due but not impaired			
less than 45 days overdue	48,762	154,885	203,647
45-90 days overdue	-	11,431	11,431
over 90 days overdue	-	48,766	48,766
Total past due but not impaired	**48,762**	**215,082**	**263,844**
Total not impaired	**51,787**	**728,218**	**780,005**
Individually determined to be impaired (gross)			
45-90 days overdue	-	1,004	1,004
over 90 days overdue	-	22,843	22,843
Total individually impaired	**-**	**23,847**	**23,847**
Less impairment provision	-	(23,347)	(23,347)
Total receivables	**51,787**	**728,718**	**780,505**

Analysis by credit quality of trade receivables at 31 December 2010 is as follows:

In thousands of Russian Roubles	Accounts Receivable, related parties	Accounts Receivable, others	Accounts Receivable, total
Current and not impaired	**3,518**	**175,211**	**178,729**
Past due but not impaired			
less than 45 days overdue	228	217,035	217,263
45-90 days overdue	12	6,089	6,101
over 90 days overdue	134	57,528	57,662
Total past due but not impaired	**374**	**280,652**	**281,026**
Total not impaired	**3,892**	**455,863**	**459,755**
Individually determined to be impaired (gross)			
45-90 days overdue	-	4,704	4,704
over 90 days overdue	-	27,490	27,490
Total past due and impaired	**-**	**32,194**	**32,194**
Less impairment provision	-	(29,838)	(29,838)
Total receivables	**3,892**	**458,219**	**462,111**

9. Property, Plant and Equipment

In thousands of Russian Roubles	Buildings	Broadcasting equipment	Vehicles	Computers, office equipment and furniture	Construction in progress	Total
At 1 January 2010						
Cost	-	2,345,593	172,970	577,315	92,773	3,188,651
Accumulated depreciation	-	(1,567,674)	(106,095)	(336,053)	-	(2,009,822)
Carrying amount at 1 January 2010	**-**	**777,919**	**66,875**	**241,262**	**92,773**	**1,178,829**
Additions	-	40,815	19,486	5,789	267,327	333,417
Acquisitions through business combinations	842,239	-	-	-	7,317	849,556
Transfers	-	21,117	-	3,201	(24,318)	-
Disposals	-	(202,530)	(23,055)	(38,716)	-	(264,301)
Depreciation	(421)	(172,383)	(26,785)	(76,210)	-	(275,799)
Depreciation on disposed assets	-	189,470	22,676	38,487	-	250,633
Translation to presentation currency, including	-	60	(1)	40	-	99
Translation to presentation currency (cost)	-	*251*	*5*	*80*	-	*336*
Translation to presentation currency (deprecation)	-	*(191)*	*(6)*	*(40)*	-	*(237)*
Net book value at the end of the period	**841,818**	**654,468**	**59,196**	**173,853**	**343,099**	**2,072,434**
At 31 December 2010						
Cost	842,239	2,205,246	169,406	547,669	343,099	4,107,659
Accumulated depreciation	(421)	(1,550,778)	(110,210)	(373,816)	-	(2,035,225)
Carrying amount at 31 December 2010	**841,818**	**654,468**	**59,196**	**173,853**	**343,099**	**2,072,434**
Additions	236,340	178,788	24,780	71,280	572,294	1,083,482
Transfers	7,317	20,481	1,626	64,362	(93,786)	-
Disposals	-	(147,606)	(15,496)	(35,825)	(9,870)	(208,797)
Depreciation	(5,388)	(161,798)	(25,070)	(77,035)	-	(269,291)
Depreciation on disposed assets	-	141,888	14,532	32,181	-	188,601
Translation to presentation currency, including	-	423	1	38	-	462
Translation to presentation currency (cost)	-	*1,875*	*8*	*389*	-	*2,272*
Translation to presentation currency (deprecation)	-	*(1,452)*	*(7)*	*(351)*	-	*(1,810)*
Net book value at the end of the period	**1,080,087**	**686,644**	**59,569**	**228,854**	**811,737**	**2,866,891**
At 31 December 2011						
Cost	1,085,896	2,258,784	180,324	647,875	811,737	4,984,616
Accumulated depreciation	(5,809)	(1,572,140)	(120,755)	(419,021)	-	(2,117,725)
Carrying amount at 31 December 2011	**1,080,087**	**686,644**	**59,569**	**228,854**	**811,737**	**2,866,891**

Historical cost of fully depreciated property, plant and equipment as at 31 December 2011 was RR 1,069,349 thousand (31 December 2010: RR 1,043,220 thousand).

10. Program Rights and Other Intangible Assets

In thousands of Russian Roubles	Non-current portion of program rights	Current portion of program rights	Other intangible assets	Total
At 1 January 2010				
Cost	18,161,372	638,208	365,079	19,164,659
Accumulated amortisation and impairment	(12,372,163)	(280,716)	(136,933)	(12,789,812)
Carrying amount at 1 January 2010	**5,789,209**	**357,492**	**228,146**	**6,374,847**
Additions	7,387,819	1,635,059	57,225	9,080,103
Acquisitions through business combinations	-	-	63,017	63,017
Disposals	(232,502)	(1,698,572)	(53,684)	(1,984,758)
Amortisation on disposed assets	232,501	1,665,713	53,678	1,951,892
Amortisation charge	(4,523,878)	(1,805,816)	(63,443)	(6,393,137)
Impairment (loss)/Reversal of impairment	(22,327)	2,591	-	(19,736)
Translation to presentation currency (cost)	28	125	-	153
Translation to presentation currency (amortisation)	(5)	(72)	-	(77)
At 31 December 2010				
Cost	25,316,717	574,820	431,637	26,323,174
Accumulated amortisation and impairment	(16,685,872)	(418,300)	(146,698)	(17,250,870)
Carrying amount at 31 December 2010	**8,630,845**	**156,520**	**284,939**	**9,072,304**
Additions	9,386,030	1,291,798	191,300	10,869,128
Disposals	(78,091)	(1,435,311)	(146,089)	(1,659,491)
Amortisation on disposed assets	10,902	1,406,131	146,089	1,563,122
Amortisation charge	(7,273,582)	(1,234,912)	(122,225)	(8,630,719)
Impairment loss	(68,604)	-	-	(68,604)
Translation to presentation currency (cost)	(57)	68	1	12
Translation to presentation currency (amortisation)	13	19	-	32
At 31 December 2011				
Cost	34,624,599	431,375	476,849	35,532,823
Accumulated amortisation and impairment	(24,017,143)	(247,062)	(122,834)	(24,387,039)
Carrying amount at 31 December 2011	**10,607,456**	**184,313**	**354,015**	**11,145,784**

Impairment loss was recorded following the changes in programming policy of the Company and future benefit inflow reassessment. The amount of impairment presented for 2011 includes impairment charge of RR 72,392 thousand (2010: RR 27,890 thousand) and reversal of impairment provision of RR 3,788 thousand (2010: RR 8,154 thousand).

Historical cost of fully amortised program rights and other intangible assets as at 31 December 2011 was RR 12,451,362 thousand (31 December 2010: RR 8,580,771 thousand).

11. Goodwill and Business Combinations

Movements in goodwill arising on the acquisition of subsidiaries were:

In thousands of Russian Roubles	2011	2010
Gross book value at 1 January	26,017	21,609
Accumulated impairment losses at 1 January	(21,609)	(21,609)
Carrying amount at 1 January	**4,408**	**-**
Acquisition of subsidiary	-	4,408
Gross book value at 31 December	26,017	26,017
Accumulated impairment losses at 31 December	(21,609)	(21,609)
Carrying amount at 31 December	**4,408**	**4,408**

12. Share Capital

The nominal registered amount of the Company's issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002 is RR 1,830 thousand (after the restatement – RR 7,393 thousand). In 2006 the Company arranged an additional issue of ordinary registered shares in the amount of 117 million shares with a par value of RR 0.01. The shares were distributed in proportion to the interests held by the shareholders in the share capital of the Company. All shares were fully paid.

The Company's share capital is divided into 300,000,000 (three hundred million) issued and paid ordinary shares with a par value of RR 0.01. Each ordinary share carries one vote.

12. Share Capital (Continued)

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with the Federal Law on Accounting of the Russian Federation. The Russian legislation identifies the basis of distribution as the net profit. The 2011 net statutory profit of the Company as reported in the published annual statutory reporting accounts was RR 3,734,033 thousand (2010: RR 3,503,855 thousand) and the retained earnings of the Company including the 2011 financial result was RR 22,014,715 thousand (31 December 2010: RR 18,369,831 thousand). The current legislation is open to various legal interpretations and accordingly management believes at present it would not be appropriate to disclose an amount for distributable reserves in these financial statements.

During 2011 dividends were declared for 2010 in the amount of RR 0.315 per share in the total amount of RR 94,500 thousand. During 2010 dividends were declared for 2009 in the amount of RR 0.21 per share in the total amount of RR 63,000 thousand.

13. Borrowings

In thousands of Russian Roubles	Note	31 December 2011	31 December 2010
Promissory notes issued		962,961	1,328,726
Borrowings and interest payable		55,856	104,728
Total borrowings	6	**1,018,817**	**1,433,454**

In thousands of Russian Roubles	31 December 2011	31 December 2010
Borrowings due:		
- within 6 months	962,961	1,336,346
- between 6 months and 1 year	-	7,619
- between 1 and 2 years	-	15,238
- between 2 and 5 years	21,893	22,858
- after 5 years	33,963	51,393
Total borrowings	**1,018,817**	**1,433,454**

Borrowings of the Group are denominated in the following currencies:

In thousands of Russian Roubles	31 December 2011	31 December 2010
Russian Roubles	962,961	1,328,726
US Dollars	55,856	104,728
Total borrowings	**1,018,817**	**1,433,454**

The effective interest rates at the reporting date were as follows:

	31 December 2011		31 December 2010	
	Russian Roubles	US Dollars	Russian Roubles	US Dollars
Borrowings	-	6%	-	6%
Promissory notes issued	1.5%	-	1.5%	-
Finance lease liabilities	-	-	30.44%	27.38%

The carrying amount of the borrowings approximates their fair value.

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect to its foreign currency obligations or interest rate exposures.

14. Government Grants

The Group received the government grants from Federal Press and Mass Media Agency. These grants were used for financing of production of designated programs and payment for broadcasting services provided by FGUP RTRS for distribution of programs in the localities with an average population of less than 100 thousand people. The conditions for receiving these grants were observed. The Group recognised as 'Government grants received' of RR 699,231 thousand (2010: RR 697,093 thousand) in the profit or loss to compensate expenses incurred by the Group.

15. Accounts Payable

In thousands of Russian Roubles	31 December 2011	31 December 2010
Trade accounts payable, long-term	35,820	-
Total accounts payable, long-term	**35,820**	-
Trade accounts payable, short-term	941,055	548,026
Payable to employees	202,528	184,934
Taxes payable, other than income tax	660,142	661,441
Total accounts payable, short-term	**1,803,725**	**1,394,401**
Total accounts payable	**1,839,545**	**1,394,401**

15. Accounts Payable (Continued)

Certain amounts of accounts payable are denominated in foreign currency as disclosed in the table below:

In thousands of Russian Roubles	31 December 2011	31 December 2010
Russian Roubles	1,641,725	1,364,139
US dollars	176,812	15,865
Euro	9,535	3,596
UK pounds	44	125
Other currencies	11,429	10,676
Total accounts payable	**1,839,545**	**1,394,401**

16. Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2011	2010
Current tax charge	(1,067,700)	(876,256)
Deferred tax	(67,954)	(89,994)
Income tax expense for the year	**(1,135,654)**	**(966,250)**

Reconciliation between the expected and the actual taxation charge is provided below:

In thousands of Russian Roubles	2011	2010
Profit before tax	**5,547,310**	**4,665,539**
Theoretical tax charge at statutory rate (20%)	(1,109,462)	(933,108)
Tax effect of items which are not deductible for taxation purposes		
- Income which is exempt from taxation	8,096	5,686
- Non deductible expenses	(20,791)	(11,401)
Effects of different tax rates in other countries	1,493	(6,006)
Unrecognized other potential deferred tax assets	(674)	(4,312)
Other non-temporary differences	(14,316)	(17,109)
Income tax expense for the year	**(1,135,654)**	**(966,250)**

Differences between IFRS and statutory taxation regulation in Russia and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%.

The Group has not recorded a deferred tax liability in respect to taxable temporary differences of RR 728,621 thousand (2010: RR 565,386 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

In thousands of Russian Roubles	31 December 2010	(Charged)/credited to profit or loss	31 December 2011
Tax effect of deductible temporary differences and tax loss carry forwards			
Intangible assets	121	(121)	-
Accounts receivable	119,188	61,511	180,699
Accounts payable	71,637	26,618	98,255
Tax loss carried forward	16,454	1,868	18,322
Gross deferred tax asset	**207,400**	**89,876**	**297,276**
Less offsetting with deferred tax liabilities	(201,362)	(95,068)	(296,430)
Recognised deferred tax asset	**6,038**	**(5,192)**	**846**

In thousands of Russian Roubles	31 December 2010	(Charged)/credited to profit or loss	31 December 2011
Tax effect of taxable temporary differences			
Property, plant and equipment	(208,142)	18,173	(189,969)
Intangible assets	(69,276)	(176,003)	(245,279)
Gross deferred tax liability	**(277,418)**	**(157,830)**	**(435,248)**
Less offsetting with deferred tax assets	201,362	95,068	296,430
Recognised deferred tax liability	**(76,056)**	**(62,762)**	**(138,818)**

16. Income Taxes (Continued)

In thousands of Russian Roubles	31 December 2009	(Charged)/credited to profit or loss	Business combination	31 December 2010
Tax effect of deductible temporary differences and tax loss carry forwards				
Intangible assets	80,120	(80,120)	121	121
Accounts receivable	94,213	24,975	-	119,188
Accounts payable	64,185	7,452	-	71,637
Deferred revenue	9,850	(1,989)	8,593	16,454
Gross deferred tax asset	**248,368**	**(49,682)**	**8,714**	**207,400**
Less offsetting with deferred tax liabilities	(134,220)	(58,428)	(8,714)	(201,362)
Recognised deferred tax asset	**114,148**	**(108,110)**	**-**	**6,038**

In thousands of Russian Roubles	31 December 2009	(Charged)/credited to profit or loss	Business combination	31 December 2010
Tax effect of taxable temporary differences				
Property, plant and equipment	(134,220)	28,967	(102,889)	(208,142)
Intangible assets	-	(69,276)	-	(69,276)
Gross deferred tax liability	**(134,220)**	**(40,309)**	**(102,889)**	**(277,418)**
Less offsetting with deferred tax assets	134,220	58,428	8,714	201,362
Recognised deferred tax liability	**-**	**18,119**	**(94,175)**	**(76,056)**

17. Broadcasting Expenses

In thousands of Russian Roubles	2011	2010
Signal transmission	(1,101,440)	(1,023,934)
Rent of production premises	(335,859)	(312,225)
TV program creation expenditure	(213,065)	(219,719)
Materials and supplies	(109,153)	(33,584)
Program rights acquired and used in the same period	(88,176)	(100,049)
Business trips expenses	(82,988)	(95,692)
Repair and maintenance of production premises and equipment	(82,683)	(66,968)
Information services	(73,198)	(69,974)
Content transmission	(56,795)	(61,982)
Telecommunication services	(40,236)	(49,611)
Vehicle fleet maintenance	(39,695)	(38,927)
Other costs	(101,713)	(65,285)
Total Broadcasting costs	**(2,325,001)**	**(2,137,950)**

18. Employee benefits expense

Employee benefits expense include salaries, bonuses, expenses for defined contribution plan, social security and other staff costs. The amount of defined contribution plan expense for 2011 was RR 209,622 thousand (2010: RR 8,884 thousand).

19. Other Service Costs

In thousands of Russian Roubles	2011	2010
Rent of administrative premises	(41,196)	(30,641)
Consulting services	(39,457)	(36,492)
Security services	(37,658)	(29,877)
Bank commission	(9,709)	(9,348)
Insurance	(4,068)	(4,261)
Other services	(3,118)	(3,691)
Total other service costs	**(135,206)**	**(114,310)**

20. Selling and Marketing Costs

In thousands of Russian Roubles	2011	2010
Agency cost	(1,549,738)	(1,090,133)
Advertising and promotion cost	(91,361)	(90,947)
Market research cost	(42,896)	(32,076)
Other	(5,908)	(2,733)
Total selling and marketing costs	**(1,689,903)**	**(1,215,889)**

21. Other Operating Income/ (Expenses), Net

In thousands of Russian Roubles	2011	2010
Operating foreign exchange gain	204,165	535,611
Operating foreign exchange loss	(161,647)	(466,235)
Loss on disposal of expired program rights	(96,514)	(32,835)
Loss on purchase and sale of foreign currency	(12,967)	(7,670)
Accounts receivable write-off	(2,164)	(2,608)
Gain /(loss) on other reserves	(607)	682
Penalties and additional taxes accrued	(487)	(6)
Other income/ (expenses), net	(26,471)	(21,976)
Total other operating income/ (expenses),net	**(96,692)**	**4,963**

22. Finance Income

In thousands of Russian Roubles	2011	2010
Foreign exchange gains from financing activity	332,600	386,672
Interest income on cash held with banks	176,320	120,430
Total finance income	**508,920**	**507,102**

23. Finance Costs

In thousands of Russian Roubles	2011	2010
Foreign exchange losses from financing activity	(281,223)	(524,121)
Interest expense on promissory notes	(15,626)	(6,850)
Interest expense on borrowings	(1,413)	(8,725)
Total finance costs	**(298,262)**	**(539,696)**

24. Contingencies, Commitments and Operating Risks

Capital expenditure commitments. At 31 December 2011 the Group has contractual capital expenditure commitments in respect to property, plant and equipment of RR 583,071 thousand (2010: RR 731,394 thousand) and in respect to program rights of RR 6,966,038 thousand (2010: RR 7,811,489 thousand).

The Group believes that future cash flows from operating activities will be sufficient to cover these and any similar such commitments.

Tax legislation. Russian tax and customs legislation, which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

24. Contingencies, Commitments and Operating Risks (Continued)

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. Potentially any mass media company may face the following claims and legal actions:

- legal suits lodged to protect honour and dignity, reputation and to obtain compensation for moral damage;
- legal actions related to infringement of copyright or any allied rights.

On the basis of its own estimates and both internal and external professional advice, management believes that no material losses will be incurred in respect to claims.

If it is likely that for certain litigation that a loss will arise the Group creates a provision, which is presented within 'accounts payable'. The movements in the provision during the reporting period were as follows:

In thousands of Russian Roubles	2011	2010
At 1 January	**90**	-
Additional provisions	930	90
Unused amounts reversed	(290)	-
At 31 December	**730**	**90**

Insurance policies. The Group holds insurance policies for all vehicles and in respect to public (third party) liability for motor vehicles. The Company does not have full insurance for business interruption or third party liability in respect to property or environmental damage.

Environmental matters. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement approach of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, 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.

25. Financial Risk Management

The risk management function within the Group is carried out in respect to financial risks (credit, market, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. Financial assets which are potentially subject to credit risk are primarily represented by trade receivables, bank deposits and cash and cash equivalents. Management developed policies to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of the provision for impairment of receivables, represents the maximum amount exposed to credit risk related to receivables.

The Group reviews the level of credit risks by counterparties or groups of counterparties. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. The Group's sales-houses and management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 8. During the prior year management introduced additional procedures to control timely collection of trade receivables. Where doubts were raised that the overdue balance would be collected, management requested additional guarantees or collateral to secure its advertising revenue collection or initiated a legal action against a non-payer. As a result of such actions performed during the year, management believes that there is no significant risk of loss to the Group beyond the impairment provisions already recorded.

Cash and cash equivalents and bank deposits are carried at amortised cost, which approximates current fair value.

The Group's maximum exposure to credit risk by class of assets is as follows:

In thousands of Russian Roubles	Note	31 December 2011	31 December 2010
Trade receivables	8	780,505	462,111
Cash and cash equivalents	7	1,209,619	2,141,258
Financial assets including bank deposits		5,183,553	3,013,858
Total maximum exposure to credit risk		**7,173,677**	**5,617,227**

The information on financial assets including bank deposits with maturity over 3 months held on the reporting date is as follows:

In thousand of Russian Roubles	Note	31 December 2011	31 December 2010
Bank deposits	(a)	5,122,350	3,000,000
Interest receivable on deposits		61,203	13,858
Total bank deposits – current		**5,183,553**	**3,013,858**

25. Financial Risk Management (Continued)

(a) This balance represents short term deposits with OAO Gazprombank AB. The Group's deposits are denominated in currencies as follows:

	31 December 2011		31 December 2010	
In thousands of Russian Roubles	**Interest rates**	**Balance**	**Interest rates**	**Balance**
RUR	4.5%-8.25%	3,426,680	4%-5.25%	3,000,000
USD	1.5%-2.75%	539,372	-	-
EUR	1.75%	1,156,298	-	-
Total bank deposits	**-**	**5,122,350**	**-**	**3,000,000**

Credit risks concentration. The Group is exposed to concentrations of credit risk. The Group is subject to certain risks arising from advertising sales which are the main source of the Group's revenue, if it is not prepaid. Among its customers the Group distinguishes the following: Gazprom related entities and other third party customers. The Group believes that there is low credit risk in relation to receivables from Gazprom related entities. Therefore, no further assessment of credit quality for related parties is performed. For other third party customers management assesses credit quality by review of financial position, past experience, the customer's reputation on the market and other risk factors. Most of such customers do not have an external credit rating. The Group does not always require collateral or other security to support receivables from customers. However, management often require prepayment from such customers. Agents provide guarantee (del credere) for collection of trade receivables.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. Majority of trade receivable balance as at reporting date covered by guarantee (del credere).

The Group's bank deposits are placed in financial institutions that are considered at the time of deposit to have a minimal risk of default. However, the Group is still subject to certain risks relating to deposits. The Group holds its cash on deposit with OAO Gazprombank AB:

In thousands of Russian Roubles	**Standard & Poor's Foreign Long Term Rating**	**Moody's Financial Strength**	**Moody's LT Bank deposits**	**Cash and cash equivalents 31 December 2011**	**Cash and cash equivalents 31 December 2010**
Gazprombank	BB+	E+	Baa3	6,147,125	5,041,782
Total				**6,147,125**	**5,041,782**

Market risk. The Group has various exposures to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity investment, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency exchange risk

The Group generates its revenue in the Russian Federation in Russian Roubles, and limited services are rendered to international customers. However, the Group purchases program rights from abroad. Thus, the Group is exposed to foreign exchange risk, primarily relating to US Dollar or Euro to Russian Rouble exchange rate.

Foreign currency denominated assets (Notes 7, 8), bank deposits listed above and liabilities (Notes 13, 15) give rise to foreign exchange exposure. The table below summarises the Group's exposure to foreign currency exchange risk at the reporting date:

	At 31 December 2011			At 31 December 2010		
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
US Dollars	907,236	(232,668)	674,568	536,114	(120,593)	415,521
Euro	1,208,654	(9,535)	1,199,119	1,176,914	(3,596)	1,173,318
Total	**2,115,890**	**(242,203)**	**1,873,687**	**1,713,028**	**(124,189)**	**1,588,839**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

At 31 December 2011, if Russian Rouble would weaken or strengthen by 10% against the Euro with all other variables held constant, pre-tax profit for the year would have been RR 119,912 thousand higher or lower respectively (2010: RR 117,332 thousand lower or higher respectively). This would result mainly from foreign exchange gains or losses on translation of Euro denominated cash, bank deposits, trade receivables, accounts payable.

At 31 December 2011, if Russian Rouble would weaken or strengthen by 10% against the US Dollar with all other variables held constant, pre-tax profit for the year would have been RR 67,457 thousand higher or lower respectively (2010: RR 41,552 thousand lower or higher respectively). This would result mainly from foreign exchange gains or losses on translation of US Dollar denominated cash, bank deposits, trade receivables, accounts payable and US Dollar denominated borrowings.

25. Financial Risk Management (Continued)

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates, as the Group has fixed rate interest-bearing borrowings. The Group has deposits in Russian Roubles bearing interest up to 8.25%, deposits in US dollars bearing interest up to 2.75% and deposits in Euro bearing interest of 1.75%. The Group's interest-bearing short-term and long-term borrowings are primarily at fixed interest rates with related parties. Management analyses its interest rate exposure on a dynamic basis taking into consideration refinancing, overdraft options and alternative financing. The Group projects impact on profit or loss of potential interest rate shift and develops appropriate course of action.

Other market risks

The Group's operating results are dependent on the advertising and media technologies markets development. The Group's basic operations are concentrated in the television and pay satellite television. The Group's major sources of income are derived from advertising on TV and from fees payable by subscribers of satellite television.

In Russia a significant portion of national television advertising have historically been sold through so-called "sales houses" (i.e. agents – Video International, Gazprom-Media, a subsidiary of the Group, Alkasar, and others). The Group sells advertising mainly through the following sales houses: OOO Gazprom-Media (national-wide advertising market), which is a related party for the Group, OOO Alkasar-Stolitsa and OOO Takt-Media (regional advertising markets). The Group's financial results are significantly dependent on advertising market trends. The Group's financial results are significantly dependent on advertising market trends. During the last two years, the Russian advertising market was growing consistently: in 2010 the TV segment of the Russian advertising market increased by 15%, in 2011 the TV segment of Russian advertising market increased by 18% (based on ACAR). The outlook for 2012 for the advertising market considers further growth.

Probable technological change in respect to video and audio signal transmission both via air and cable or satellite could influence the Group's financial results. Digital standards implementation in the television and broadcasting could facilitate a significant change in TV and radio advertising markets as well as impact the estimation of the value-in-use of TV broadcasting licenses held by the Group.

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources. Management monitors a rolling forecast of the Group's liquidity capacity represented by deposits with banks (Note 25), cash and cash equivalents (Note 7) and borrowings repayment on the basis of expected cash flows. In addition, management projects cash flows in Russian Roubles and considers the Group's monetary position to ensure it has sufficient cash to meet operational needs and capital commitments when fall due. The Group seeks to maintain a stable funding base primarily consisting of amounts of pay TV and advertising customers' prepayments. The Group invests the funds in liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash equivalents (Note 7) and deposits with banks (Note 25).

The table below shows liabilities at 31 December 2011 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges). When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of reporting period.

The maturity analysis of financial liabilities as at 31 December 2011 is as follows:

In thousands of Russian Roubles	**Demand and less than 6 months**	**Between 6 months and 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Liabilities						
Borrowings – non-current	-	-	-	(21,893)	(33,963)	**(55,856)**
Borrowings – current	(962,961)	-	-	-	-	**(962,961)**
Trade and other payables	(835,713)	(105,342)	(28,326)	(5,621)	(1,873)	**(976,875)**
Total liabilities, including future discounts and interests	**(1,798,674)**	**(105,342)**	**(28,326)**	**(27,514)**	**(35,836)**	**(1,995,692)**

25. Financial Risk Management (Continued)

Other market risks (continued)

The maturity analysis of financial liabilities at 31 December 2010 is as follows:

In thousands of Russian Roubles	Demand and less than 6 months	Between 6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Liabilities						
Borrowings – non-current	-	-	(15,238)	(22,858)	(57,792)	**(95,888)**
Borrowings – current	(1,336,346)	(7,619)	-	-	-	**(1,343,965)**
Trade and other payables	(496,830)	(50,667)	-	(529)	-	**(548,026)**
Total liabilities, including future discounts and interests	**(1,833,176)**	**(58,286)**	**(15,238)**	**(23,387)**	**(57,792)**	**(1,987,879)**

Management believes that its cash flows are sufficient to meet its debt obligations when fall due.

Management analyses net cash position of the Group as follows:

In thousands of Russian Roubles	31 December 2011	31 December 2010
Borrowings – non-current	(55,856)	(89,489)
Borrowings – current	(962,961)	(1,343,965)
Financial assets including bank deposits	5,183,553	3,013,858
Cash and cash equivalents	1,209,619	2,141,258
Net cash position	**5,374,355**	**3,721,662**

Management of capital. The capital of the Group is represented by capital, reserves and retained earnings accumulated by the Company and its subsidiaries.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, develop the Group's operations into new media segments and to maintain an optimal capital structure to reduce the cost of capital. The Group has no externally imposed capital requirements.

The amount of capital that the Group managed as of 31 December 2011 was RR 22,335,957 thousand (31 December 2010: RR 17,964,392 thousand).

26. 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 than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all the available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The fair values of floating rate instruments are normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of trade receivables approximate their fair values. Cash and cash equivalents and bank deposits are carried at amortised cost, which approximates current fair value.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar a credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Note 13 for the disclosure of fair value of borrowings. Carrying amount of trade and other payables approximate fair values.