HMS Group OJSC

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

31 December 2009

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of HMS Group OJSC:

We have audited the accompanying consolidated financial statements of Open Joint Stock Company HMS Group (formerly operating as Investment and Industrial Group Hydraulic Machines and Systems LLC; the "Company") and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as of 31 December 2009, 2008 and 2007 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the three years then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, 2008 and 2007, and of its financial performance and its cash flows for each of the three years then ended in accordance with International Financial Reporting Standards.

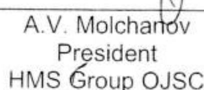
ZAO PricewaterhouseCoopers Audit

27 August 2010
Moscow, Russian Federation

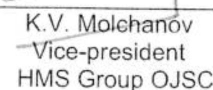
ГМС ГРУППА

	Note	31 December 2009	31 December 2008	31 December 2007
ASSETS				
Non-current assets:				
Property, plant and equipment	7	3,954,807	3,928,373	2,867,035
Other intangible assets	8	47,109	53,439	46,589
Goodwill	9	306,992	306,682	207,329
Investments in associates	11	507,293	449,848	416,860
Deferred income tax assets	26	53,989	41,000	57,711
Other long-term receivables	15	33,362	17,285	50,911
Total non-current assets		**4,903,552**	**4,796,627**	**3,646,435**
Current assets:				
Inventories	13	3,179,644	2,432,504	1,852,958
Trade and other receivables	14	2,875,755	3,027,888	3,869,094
Current income tax receivable		57,974	46,516	29,212
Prepaid expenses		35,104	26,422	23,024
Cash and cash equivalents	12	757,661	669,482	377,203
Restricted cash	12	905	620	890
Total current assets		**6,907,043**	**6,203,432**	**6,152,381**
TOTAL ASSETS		**11,810,595**	**11,000,059**	**9,798,816**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	24	591,180	591,180	-
Currency translation reserve		(168,051)	(122,942)	-
Retained earnings		1,308,801	1,635,995	-
Other reserves		(26,834)	(26,834)	-
Equity attributable to the Company's equity holders		**1,705,096**	**2,077,398**	-
Minority interest		**669,631**	**648,114**	**567,953**
TOTAL EQUITY		**2,374,727**	**2,725,512**	**567,953**
LIABILITIES				
Non-current liabilities				
Net assets attributable to the Company's participants:				
Paid-in capital	25	-	-	218,080
Cumulative surplus of net assets	25	-	-	1,538,482
Total net assets attributable to the Company's participants		-	-	**1,756,562**
Other non-current liabilities:				
Long-term borrowings	16	3,396,766	787	52,631
Finance lease liability	17	8,479	21,767	41,388
Deferred income tax liability	26	197,307	231,447	237,553
Pension liability	18	125,407	120,898	118,276
Long-term payables	20	-	-	14,938
Provisions for liabilities and charges	21	11,550	-	-
Total other non-current liabilities		**3,739,509**	**374,899**	**464,786**
Total non-curent liabilities		**3,739,509**	**374,899**	**2,221,348**
Current liabilities:				
Trade and other payable	23	3,255,490	3,238,859	3,748,655
Short-term borrowings	16	1,878,774	4,081,922	2,898,852
Provisions for liabilities and charges	21	209,746	199,336	122,254
Finance lease liability	17	13,094	19,776	22,816
Pension liability	18	20,922	17,242	11,676
Current income tax payable		25,069	22,419	23,593
Other taxes payable	22	293,264	320,094	181,669
Total current liabilities		**5,696,359**	**7,899,648**	**7,009,515**
TOTAL LIABILITIES		**9,435,868**	**8,274,547**	**9,230,863**
TOTAL EQUITY AND LIABILITIES		**11,810,595**	**11,000,059**	**9,798,816**

Approved for issue and signed on behalf of the Board of Directors on 27 August 2010.



A.V. Molchanov
President
HMS Group OJSC



K.V. Molchanov
Vice-president
HMS Group OJSC

ГМС ГРУППА

	Note	2009	2008	2007
Revenue	27	14,772,269	14,046,245	13,399,356
Cost of sales	28	(11,164,202)	(10,772,689)	(10,807,001)
Gross profit		**3,608,067**	**3,273,556**	**2,592,355**
Distribution and transportation expenses	29	(482,576)	(517,493)	(399,625)
Excess of fair value of net assets acquired over the cost of acquisition	10	-	33,958	-
General and administrative expenses	30	(1,826,419)	(1,653,383)	(1,228,171)
Impairment of goodwill	9	(116,998)	-	-
Other operating expenses – net	31	(97,636)	(190,187)	(100,772)
Operating profit		**1,084,438**	**946,451**	**863,787**
Finance income	32	58,424	26,450	35,053
Finance costs	33	(865,140)	(488,369)	(249,097)
Share of results of associates	11	17,193	49,444	18,129
Profit before income tax		**294,915**	**533,976**	**667,872**
Income tax expense	26	(211,765)	(204,415)	(176,690)
Profit for the year		**83,150**	**329,561**	**491,182**
Profit for the year		**83,150**	**329,561**	**491,182**
Allocated as follows:				
Entitlement of participants in respect of their interest in the Company	25	-	(281,927)	(372,430)
Remainder, being entitlement of equity and minority holders		**83,150**	**47,634**	**118,752**
Other comprehensive income				
Currency translation differences		(70,502)	(74,103)	-
Change in cumulative currency translation reserve attributable to participants of the Company	25		4,462	(14,460)
Revaluation gain		-	37,035	-
Currency translation differences of associates		1,283	(31,340)	-
Other comprehensive loss for the year		**(69,219)**	**(63,946)**	**(14,460)**
Total comprehensive income/(loss) for the year		**13,931**	**(16,312)**	**104,292**
Profit attributable to:				
Equity holders of the Company		(18,768)	(24,740)	-
Minority interest		101,918	72,374	118,752
		83,150	**47,634**	**118,752**
Total comprehensive income/(loss) attributable to:				
Equity holders/participants of the Company		(63,877)	(75,823)	(14,460)
Minority interest		77,808	59,511	118,752
		13,931	**(16,312)**	**104,292**

Basic and diluted earnings per ordinary share for loss attributable to the ordinary shareholders

		2009	2008	2007
Basic and diluted earnings per ordinary share for loss attributable to ordinary shareholders		**(0.016)**	**(0.021)**	**-**

The accompanying notes on pages 5 to 59 are an integral part of these consolidated financial statements.

	Note	2009	2008	2007
Cash flows from operating activities				
Profit before income tax		294,915	533,976	667,872
Adjustments for:				
Depreciation and amortization	7, 8	343,987	347,828	277,172
Loss from disposal of property, plant and equipment and intangible assets	31	2,305	30,382	27,273
Finance income	32	(54,408)	(26,450)	(35,053)
Finance costs	33	865,140	413,990	224,667
Pension expenses	18	17,672	24,801	45,130
Provision for warranty	28	18,150	12,455	11,817
Provision for impairment of accounts receivable	30	69,559	32,694	69,373
Provision for obsolete inventories	28	95,949	56,993	48,383
Foreign exchange translation differences		(4,016)	74,348	24,398
Provisions for legal claims	30	13,655	18,311	-
Provision for VAT receivable	30	29,918	826	-
Share of result of associates	11	(17,193)	(49,444)	(18,129)
Impairment of goodwill	9	116,998	-	-
Impairment of property, plant and equipment and intangible assets	7, 8	13,848	-	-
Excess of fair value of net assets acquired over the cost of acquisition	10	-	(33,958)	-
Other non-cash items		1,955	711	-
Operating cash flows before working capital changes		**1,808,434**	**1,437,463**	**1,342,903**
Increase in inventories		(810,442)	(542,698)	(139,810)
Decrease/(Increase) in trade and other receivables		34,191	1,190,231	(1,363,244)
(Decrease)/Increase in taxes payable		(9,530)	133,961	(86,481)
(Decrease)/Increase in accounts payable and accrued liabilities		(71,359)	(698,369)	1,237,507
Restricted cash	12	(285)	270	(690)
Cash generated from operations		**951,009**	**1,520,858**	**990,185**
Income tax paid		(286,395)	(367,006)	(328,099)
Interest paid		(875,750)	(421,100)	(223,974)
Net cash (used in)/from operating activities		**(211,136)**	**732,752**	**438,112**
Cash flows from investing activities				
Repayment of loans advanced		121,778	376,802	90,676
Loans advanced		(108,139)	(407,311)	(110,834)
Proceeds from the sale of property, plant and equipment		1,775	23,876	6,763
Interest received		39,352	8,150	403
Dividend received	11	10,313	8,359	-
Acquisition of intangible assets		(19,741)	(10,454)	(5,304)
Prepayments for business combinations		-	(162,814)	(199,399)
Purchase of property, plant and equipment		(192,365)	(650,252)	(501,858)
Acquisition of associates	11	(122,756)	(50,605)	(398,731)
Acquisitions of subsidiaries, net of cash acquired	10	(239,806)	(261,144)	(398,242)
Net cash used in investing activities		**(509,589)**	**(1,125,393)**	**(1,516,526)**
Cash flows from financing activities				
Repayment of borrowings		(5,571,316)	(6,852,625)	(3,777,447)
Proceeds from borrowings		6,775,593	7,852,955	5,413,921
Payment for finance lease		(19,971)	(22,664)	(12,157)
Acquisition of non-controlling interest in subsidiaries	10	(208,799)	(5,890)	(89,167)
Proceeds from sale of non-controlling interest in subsidiaries	10	-	766	-
Prepayments for acquisition of non-controlling interest in subsidiaries		-	(9,753)	-
Dividend paid to minority holders of subsidiaries	24	(160,009)	(291,726)	(221,915)
Capital contribution		-	23,548	-
Net cash from financing activities		**815,498**	**694,611**	**1,313,235**
Net increase in cash and cash equivalents		**94,773**	**301,970**	**234,821**
Effect of exchange rate changes on cash and cash equivalents		**(6,594)**	**(9,691)**	**-**
Cash and cash equivalents at the beginning of the year	12	**669,482**	**377,203**	**142,382**
Cash and cash equivalents at the end of the year	12	**757,661**	**669,482**	**377,203**

	Note	Capital and reserves attributable to the equity holders of the Company						
		Share capital	Other reserves	Cumulative currency translation reserve	Retained Earnings	Equity attributable to the equity holders	Minority interest	Total Equity
Balance at 1 January 2007		-	-	-	-	-	687,257	687,257
Profit for the year attributable to minority interest		-	-	-	-	-	118,752	118,752
Business combinations	10	-	-	-	-	-	85,130	85,130
Acquisition of minority interest in the subsidiaries	10, 25					-	(276,585)	(276,585)
Distribution to minority holders of the Group's subsidiaries	24	-	-	-	-	-	(221,690)	(221,690)
Allocation of net assets to minority holders of the Group's subsidiaries	24	-	-	-	-	-	175,089	175,089
Balance at 31 December 2007		-	-	-	-	-	**567,953**	**567,953**
Reclassification from net assets attributable to participants liability	1, 25	591,180	(63,869)	(30,362)	1,708,509	2,205,458	-	2,205,458
Net profit for the year		-	-	-	(24,740)	(24,740)	72,374	47,634
Other comprehensive income								
Change in cumulative currency translation reserve		-	-	(61,240)	-	(61,240)	(12,863)	(74,103)
Revaluation gain	24	-	37,035	-	-	37,035	-	37,035
Share of comprehensive income from associates		-	-	(31,340)	-	(31,340)	-	(31,340)
Total comprehensive income for 2008		-	**37,035**	**(92,580)**	**(24,740)**	**(80,285)**	**59,511**	**(20,774)**
Distribution to minority holders of the Group's subsidiaries	24	-	-	-	-	-	(291,726)	(291,726)
Allocation of net assets to minority holders of the Group's subsidiaries	25	-	-	-	(33,726)	(33,726)	235,363	201,637
Business combinations	10	-	-	-	-	-	117,886	117,886
Acquisition of minority interest in the subsidiaries	10, 25	-	-	-	(14,049)	(14,049)	(40,873)	(54,922)
Balance as at 31 December 2008		**591,180**	**(26,834)**	**(122,942)**	**1,635,994**	**2,077,398**	**648,114**	**2,725,512**
Net profit for the year		-	-	-	(18,768)	(18,768)	101,918	**83,150**
Other comprehensive income								
Change in cumulative currency translation reserve		-	-	(46,392)	-	(46,392)	(24,110)	**(70,502)**
Share of comprehensive income from affiliates share holding		-	-	1,283	-	1,283	-	**1,283**
Total comprehensive income for 2009		-	-	**(45,109)**	**(18,768)**	**(63,877)**	**77,808**	**13,931**
Distribution to minority holders of the Group's subsidiaries	24	-	-	-	-	-	(160,009)	**(160,009)**
Allocation of net assets to minority holders of the Group's subsidiaries	24	-	-	-	(123,541)	(123,541)	123,541	-
Business combinations	10	-	-	-	-	-	9,335	**9,335**
Acquisition of minority interest in the subsidiaries	10	-	-	-	(107,528)	(107,528)	(106,514)	**(214,042)**
Disposal of minority interest in the subsidiaries	10	-	-	-	(77,356)	(77,356)	77,356	-
Balance as at 31 December 2009		**591,180**	**(26,834)**	**(168,051)**	**1,308,801**	**1,705,096**	**669,631**	**2,374,727**

The accompanying notes on pages 5 to 59 are an integral part of these consolidated financial statements.

1 The HMS Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for three years ended 31 December 2009, 2008, 2007 for Open Joint Stock Company HMS Group (formerly operating as Investment and Industrial Group Hydraulic Machines and Systems LLC; the "Company") and its subsidiaries ("the Group"). The Group's principal business activities are: manufacturing of a wide range of pumps and pumping units, manufacturing and repairing of oil and gas equipment, engineering and construction services mainly for oil and gas companies. These products and services are sold both in the Russian Federation and abroad. The Company is incorporated and domiciled in the Russian Federation. The address of its registered office is 3rd Pryadilnaya St. 6A, 105037 Moscow. The Group's manufacturing facilities are primarily located in Orel, Vladimir, Tomsk and Tyumen regions of the Russian Federation, Sumy in Ukraine and Minsk in Belorussia.

Before 29 August 2008 the Company was a limited liability company and incorporated and domiciled in the Russian Federation. On 29 August 2008 the Company changed its legal form and company name from Investment and Industrial Group Hydraulic Machines and Systems LLC to HMS Group OJSC.

The Group's ultimate parent company is HMS-Holdng LLC which is jointly controlled by Hydroindustry LLC and Hydromashinvest LLC (Notes 24 and 25). In accordance with the charter of HMS-Holding LLC, Hydroindustry LLC has the prerogative right to appoint the executive body of HMS-Holding LLC and its subsidiary (including the Company) and Hydromashinvest LLC has the prerogative right to appoint the checkup committee of HMS-Holding LLC and its subsidiary (including the Company).

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

(i) Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.

(ii) The rise in Russian and emerging market risk premium resulted in a steep increase in foreign financing costs.

(iii) The depreciation of the Russian Rouble against hard currencies (compared to RR 25.3718 for 1 US Dollar at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.

(iv) As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

Borrowers and debtors of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers and debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

The volume of financing available in particular from overseas has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Reduced revenue budgets and more challenging situation in the markets for entity's products and services have led management to perform an impairment test of the Group's property, plant and equipment, intangible assets and goodwill. Refer to Notes 7, 8 and 9. The Group recognized the resulting impairment loss totaling RR 130,846 thousand (no impairment was recognized in 2008, 2007).

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by initial recognition of financial instruments based on fair value. 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 (refer to Note 5).

Presentation currency. All amounts in these financial statements are presented in thousands of Russian Roubles ("RR"), unless otherwise stated.

3 Summary of Significant Accounting Policies (continued)

Consolidated financial statements. Subsidiaries are those 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 obtainable from presently convertible instruments 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. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the acquiree at each exchange transaction represents goodwill. Any excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss for the year.

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 minority interest.

When a business combination involves more than one transaction any adjustments to those fair values relating to any previously held interest of the Group is recognised as a revaluation in other comprehensive income.

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

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

When acquisition does not meet the definition of a business, the Group allocates the cost of such acquisition between the individual identifiable assets and liabilities in the Group based on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill.

Purchases and sales of minority interests. The Group applies the economic entity model to account for transactions with minority shareholders. Any difference between the purchase consideration and the carrying amount of minority interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of minority interest sold as a gain or loss in the statement of changes in equity.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for in accordance with the purchase method of accounting.

Associates. Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss for the year as share of result of associates; the Group's share of post-acquisition other comprehensive income of associates is recognised in the Group's other comprehensive income as share of results of associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Property, plant and equipment. Property, plant and equipment are stated at historic acquisition or construction cost less accumulated depreciation and provision for impairment, where required.

Subsequent costs are included in the asset's carrying amount or recognised 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. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

3 Summary of Significant Accounting Policies (continued)

At each reporting date 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 recognised in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items 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:

	Number of years
Buildings	3-50
Plant and equipment	10-15
Transport	7
Other	3-5

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.

Other intangible assets. The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software, patents, trademarks and licences.

Acquired computer software licences, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Patents	5-20
Licensed technology	1-18
Software licences	1-7
Customer relationships	2
Trademarks	5-10
Website	2-10

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.

Intangible assets – Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. 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 and are not larger than a segment. 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.

Financial assets. All financial assets of the Group fall into one measurement category: loans and receivables.

Financial liabilities. All financial liabilities of the Group fall into one measurement category: other financial liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'other long-term receivables' and cash and cash equivalents in the statement of financial position.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

3 Summary of Significant Accounting Policies (continued)

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

Inventories. Inventories are stated at the lower of cost and net realisable value. Cost of inventory is determined using the weighted average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity), borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within 'general and administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses' in profit or loss.

Advances issued. Advances issued are carried at cost less provision for impairment. An advance issued is classified as non-current when the goods or services relating to the advance issued are expected to be obtained after one year, or when the advance issued relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the assets, goods or services relating to an advance issued will not be received, the carrying value of the advance issued is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three monthss or less or deposits with original maturity of more than three month which could be withdrawn on demand. Restricted balances are excluded from cash and cash equivalents for the purposes of the statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the statement of financial position date are included in other non-current assets.

Trade and other payables. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

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

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

3 Summary of Significant Accounting Policies (continued)

Finance lease liabilities. Where the Group is a lessee in a lease which transfers 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.

Income taxes. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the company's subsidiaries and associates operate and generate taxable income, primarily the Russian legislation. The income tax charge/credit comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised, in the same or a different period, directly in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. 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 liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the statement of financial position date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets 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 utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the 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, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Provisions for liabilities and charges. Provisions, including provisions for environmental liabilities and asset retirement obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount 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.

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

Uncertain tax positions. Management has assessed, based on its interpretation of the relevant tax legislation that it is probable that certain tax positions taken by the Group would not be sustained, if challenged by the tax authorities. The assessment is based on the interpretation of law tax that have been enacted or substantively enacted by the end of the reporting period and any know court or other rulings on such issues. Liability for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Pension and other post-employment benefits. Group companies operate unfunded post-employment benefits plans. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

3 Summary of Significant Accounting Policies (continued)

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of any plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are recognised immediately in the profit or loss as they arise.

Past service costs are recognized immediately in profit and loss, unless changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight line basis over the vesting period.

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

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currencies of the Group's subsidiaries and associates are Russian Roubles, Ukrainian Hryvnas ("UAH"), Belorussian Roubles ("BYR") and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR"). Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation (hereinafter "CBRF") at the respective statement of financial position dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss.

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses are translated at average exchange rates (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 recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recognised in the profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

At 31 December 2009 the principal rates of exchange used for translating foreign currency balances were:

	2009	2008	2007
1 USD = RR	30.2442	29.3804	24.5462
1 UAH = RR	3.7617	3.8557	4.8236
1 BYR = RR	0.01061	0.0133	0.0114

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

When the Group issues equity instruments to extinguish a financial liability it removes the financial liability (or part of a financial liability) from its statement of financial position when, and only when, the liability is extinguished and the equity instruments issued to extinguish the financial liability are recognised initially, at the carrying amount of the liability at the date of conversion.

3 Summary of Significant Accounting Policies (continued)

Net assets attributable to participants. Until 29 August 2008, the Company's equity participants had a right to request redemption of their interests in the Company in cash (Note 25). The Company's obligation to redeem gave rise to a financial liability for the present value of the redemption amount even though the obligation was conditional on the equity participant exercising the right. The redemption amount was variable and depended on the Company's net assets determined in accordance with the Russian Accounting Regulations. As a practical expedient the Company measured the liability presented as 'Net assets attributable to participants' at the carrying values of net assets that were or could have been distributable to participants, determined in accordance with the Russian Accounting Regulations for the Company or determined in accordance with IFRS for the Group, whichever were higher. The liability was classified as non-current because the Company, in accordance with its charter, had an unconditional right to defer redemption for at least twelve months after the statement of financial position date. Until 29 August 2008 dividends to participants are presented as a finance cost in the income statement and are recognised when declared.

The statement of comprehensive income for 2007 and from 1 January 2008 through 28 August 2008 shows the total amounts allocated to the Company's participants in their capacity as holders of the capital of the Company. Other changes in net assets attributable to the Company's participants resulted from transactions with participants in their capacity as owners of the Company are recognised directly in the cumulative surplus of net assets as disclosed in Note 25.

For the purpose of presentation in the statement of comprehensive income for the year ended 31 December 2008, the results for the year ended 31 December 2008 were not bifurcated for the period before 29 August 2008 and after 29 August 2008.

Dividends. Dividends are recognised as a liability and deducted from equity at the statement of financial position date only if they are declared before or on the statement of financial position date. Dividends are disclosed when they are proposed before the statement of financial position date or proposed or declared after the statement of financial position date but before the financial statements are authorised for issue.

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, risks and rewards of ownership of the goods have been transferred and it is probable that future economic benefits will flow to the entity. Sales of services are recognised in the accounting 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 recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Construction contracts. Contract costs are recognised as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the 'percentage-of-completion' method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the statement of financial position date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retentions are included within 'trade accounts receivables'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

3 Summary of Significant Accounting Policies (continued)

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

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

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

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The revised *IAS 1, Presentation of Financial Statements*, which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. The opening statement of financial position is presented in these financial statements as a result of changes in presentation made following the adoption of the revised IAS 1 from 1 January 2009, including the introduction of the statement of comprehensive income. The requirement to present the additional opening statement of financial position, when the entity has made a restatement or reclassification, extends to the information in the related notes. Management considered materiality and concluded that it is sufficient for an entity to present such information only in those notes that have been impacted by a restatement or a reclassification and state in the financial statements that the other notes have not been impacted by the restatement or reclassification. The omission of the notes to the additional opening statement of financial position is therefore, in management's view, not material.

The reclassifications in the statement of financial position had an impact on information disclosed in Note 14, 20, 21 and Note 27 and had no impact on any other captions in the statement of financial position and related note disclosures.

The effect of reclassifications for presentation purposes was as follows:

	Amount before adjustment at 31 December 2006	Adjustment	Adjusted amount at 31 December 2006
Provisions for liabilities and charges (non-current)	5,181	(5,181)	-
Trade and other payable (current)	1,220,587	(32,470)	1,188,117
Provisions for liability and charges (current)	-	37,651	37,651

	Amount before adjustment at 31 December 2007	Adjustment	Adjusted amount at 31 December 2007
Provisions for liabilities and charges (non-current)	29,594	(29,594)	-
Long-term payables	-	14,938	14,938
Trade and other payable (current)	3,856,253	(107,598)	3,748,655
Provisions for liability and charges (current)	-	122,254	122,254

	Amount before adjustment at 31 December 2008	Adjustment	Adjusted amount at 31 December 2008
Provisions for liabilities and charges (non-current)	27,111	(27,111)	-
Trade and other payable (current)	3,413,961	(175,102)	3,238,859
Provisions for liability and charges (current)	-	202,220	202,220

	Amount before adjustment at 31 December 2008	Adjustment	Adjusted amount at 31 December 2008
Trade and other receivables	3,076,888	(46,116)	3,030,772
Deferred tax liability	240,670	(9,223)	231,447
Equity attributable to the Company's equity holders (through profit or loss for 2008)	2,099,216	(21,817)	2,077,399
Minority interest	663,197	(15,083)	648,114

3 Summary of Significant Accounting Policies (continued)

In 2009 the Group's management reconsidered its approach in respect of revenue recognition for certain long-term construction contracts which commenced in 2007. Management has retrospectively reduced the amount of revenues earned during the year ended 31 December 2008 and the related trade receivable as of that date by RR 46,116. The associated deferred tax impact resulted in the income tax expense and the deferred tax liability for 2008 reducing by RR 9,223. As a result, the 2008 comparative amounts in these financial statements differ from the 2008 amounts previously reported by the Group due to the adjustments described above. The adjustments had no impact on retained earnings for 2007.

Corresponding changes were made to Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows.

In 2009 the Group's management reconsidered its approach in respect of presentation of provisions for liabilities and charges and started to present them as separate line in Statement of Financial Position. Corresponding changes were made to all comparative information.

In 2009 the Group's management amended presentation of foreign exchange difference in the cash flow statement for the year ended 31 December 2007 to reconcile it with Finance costs line of Consolidated Statement of Comprehensive Income. The effect of reclassification on consolidated statement of cash flows for presentation purposes was as follows:

	Amount before adjustment 2007	Adjustment	Adjusted amount 2007
Increase in accounts payable and accrued liabilities	1,266,435	(28,928)	1,237,507
Provision for warranty	11,709	108	11,817
Foreign exchange translation difference	(4,422)	28,820	24,398

In 2009 the Group's management amended presentation of dividends paid to minority holders of subsidiaries in the cash flow statement for the year ended 31 December 2008. The effect of reclassification on consolidated statement of cash flows for presentation purposes was as follows:

	Amount before adjustment 2008	Adjustment	Adjusted amount 2008
Decrease in accounts payable and accrued liabilities	(754,733)	56,364	(698,369)
Dividends paid to minority holders of subsidiaries	(235,362)	(56,364)	(291,726)

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

(a) Related party transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. (Please refer to Note 34).

(b) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 35.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

(c) Provision for pension obligations

The principal assumptions used in valuation of pension obligations are the discount rates used in determining the present value of post employment benefits, expected rate of return on plan assets, salaries at retirement for post-employment defined benefit plan (Note 18). The Group's estimates for pension obligations provisions are based on currently available information. Actual results may differ from the estimates, and the Group's estimates can be revised in the future, either negatively or positively. Provisions for pension obligations are periodically adjusted based on updated actuarial assumptions.

(d) Assessment of percentage of completion on construction contracts

The Group uses percentage of costs incurred up to the statement of financial position date to total estimated costs to determine the stage of completion of the contract. The assessed stage of completion of the contract is used to determine the amount of revenue and expenses recognized in the reporting period. Actual total costs may differ from estimated total costs. The Group uses all relevant available data to determine amount of estimated total costs. The accuracy of estimates is assessed and estimates are corrected if necessary on an annual basis.

(e) Assessment of useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (h) technical or commercial obsolescence arising from changes in market conditions.

If the management's estimates on useful lives differ by 10%, the impact on depreciation for the year ended 31 December 2009 would be either increase or decrease by RR 32,297 (2008: RR 30,850; 2007: RR 24,406).

(f) Presentation of inventory/net payable or receivable on construction contracts

The Group's construction contracts include substantial amounts of materials bought from customers and subsequently re-invoiced to customers together with the cost of construction services provided. Final settlements are usually made through offsetting the payables for these materials and related receivables and paying the resulting balance. The Group bears all risks and rewards on buying and using these materials. Therefore, management decided that revenues and costs related to these materials are to be recognized and presented in the profit or loss for the period on a gross basis and the inventories/net payable or receivable in the statement of financial position.

(g) Assesment of construction revenue and receivables related to construction contracts

Under IAS 11, construction revenue is measured at the fair value of the consideration received or receivable. The amount of revenue and estimates should be revised as events occur and any uncertainties are resolved.

A variation is included in contract revenue when: it is probable that the customer will approve the variation and the amount of revenue arising from the variation; and the amount of revenue can be reliably measured. Because of the frequency and large number of disputes that arise on construction contracts and the length of time over which negotiations may stretch. The Group takes variations and claims into account only when they have actually been approved by the customer.

In addition, receivables related to construction contracts are subject to credit risk. In other words, although some revenue continues to be contractually bounded, the customer can still refuse to pay or to pay in time. Where revenue has been validly recognised on a contract, but an uncertainty subsequently arises about the recoverability of the related amount due from the customer, any provision against the amount due is recognised as an expense.

(h) Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

(i) Estimated impairment of property, plant and equipment

At 31 December 2009 the Group performed an impairment test of property, plant and equipment. The recoverable amount of each cash-generating unit (CGU) was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering 5 years. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs. An impairment charge of RR 10,558 for property, plant and equipement and RR 3,290 for intangible assets resulted in the carrying amount of Electrodvigatel OJSC has been written down to its recoverable amount (Note 7). Change of estimates would not cause additional impairment charge except for Trest Sibkomplektmontazhnaladka OJSC and Rostovskiy Vodokanalproekt OJSC described below.

(j) Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 9. An impairment charge of RR 94,881 and RR 22,117 resulted in the carrying amount of Trest Sibkomplektmontazhnaladka OJSC and Rostovskiy Vodokanalproekt OJSC, respectively, has been written down to its recoverable amount (Note 9).

If the EBIT margin used in the value-in-use calculation for abovementioned cash generating units had been 1% lower than management's estimates, the Group would have recognised a further impairment of goodwill by RR 95,691 and RR 20,756 respectively and further impairment of property plan and equipment of RR 237,601 for the year ended 31 December 2009. If revenue forecasted for 2011 used in the value-in-use calculation had been 5% lower than management's estimates, the Group would have recognised a further impairment of goodwill by RR 95,691 and RR 7,044 respectively and further impairment of property plan and equipment of RR 67,200. If the estimated cost of capital used in determining the pre-tax discount rate had been 5% higher than management's estimates, the Group would have recognised a further impairment of goodwill of RR 95,691 and RR 68,286, respectively and further impairment of property plan and equipment of RR 53,081.

(k) Non consolidation of an associate

Management has exercised its judgement whether the right to acquire an additional 11% in Dimitrovgradkhimmash OJSC is currently exercisable and has concluded that is not. Therefore Dimitrovgradkhimmash OJSC is treated as an investment in associate and not a subsidiary. As per the agreement the seller is obliged to sell additional 11% in Dimitrovgradkhimmash OJSC within 5.5 years from acquisition of the initial investment on terms and conditions to be agreed in the future; and the seller cannot sell such shares until then. However, because the price to be paid will be the fair value and the seller has the right to pay a penalty to the Group equal to the value of the 11% of the shares determined at a price stated in the July 2007 share-purchase agreement management believes that this is not a currently exercisable right (as the seller can walk away with the payment of a penalty), therefore, the right is not currently exercisable within the meaning of IAS 27.14 and therefore the Group does not control Dimitrovgradkhimmash OJSC.

5 Adoption of New or Revised Standards and Interpretations

Certain new interpretations became effective for the Group from 1 January 2009:

- *IAS 23, Borrowing Costs*, revised in March 2007. The main change is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalization is on or after 1 January 2009. Other borrowing costs are recognized as an expense using the effective interest method. As a result of the adoption of this standard during the year ended 31 December 2009 the Group capitalised borrowing costs of RR 11,290 to construction contract work in progress with RR 9,769 expensed as expese during the year.
- *IAS 1, Presentation of Financial Statements*, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a balance sheet (Statement of Financial Position) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

5 Adoption of New or Revised Standards and Interpretations (continued)

- Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. Management believes that these improvements do not significantly influence these financial statements. Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements.

- Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements. Vesting Conditions and Cancellations – Amendment to *IFRS 2, Share-based Payment*. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment is not currently applicable to the Group as it has no such payments.

- *IFRIC 13, Customer Loyalty Programmes*. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

- *IFRIC 15, Agreements for the Construction of Real Estate*. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognize revenue on such transactions. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate.

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

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

5 Adoption of New or Revised Standards and Interpretations (continued)

- Improving Disclosures about Financial Instruments – Amendment to *IFRS 7, Financial Instruments: Disclosures*, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group considered relevance of the enhanced disclosures for these financial statements. The amendment did not have significant impact on these financial statements.
- Embedded Derivatives – Amendments to IFRIC 9 and IAS 39, issued in March 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. This amendment did not have any impact on these financial statements because the Group did not have embedded derivatives.

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

Standards and amendments early adopted by the Group. *IFRS 8, Operating Segments* (effective for annual periods beginning on or after 1 January 2009) was early adopted in 2007. IFRS 8 replaces *IAS 14, Segment reporting*, and aligns segment reporting with the requirements of the US standard SFAS 131, Disclosure about segments of and enterprise and related information. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group early adopted amendment for IFRS 8 as at 1 January 2009 and reports a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker.

6 New Accounting Pronouncements

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

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

6 New Accounting Pronouncements (continued)

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

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

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

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

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

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

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

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

6 New Accounting Pronouncements (continued)

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized 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 amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

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

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

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

7 Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost at 1 January 2007	**81,610**	**1,095,005**	**704,401**	**96,041**	**125,884**	**87,466**	**2,190,407**
Accumulated depreciation	**-**	**(54,069)**	**(143,754)**	**(25,197)**	**(38,555)**	**-**	**(261,575)**
Carrying amount at 1 January 2007	**81,610**	**1,040,936**	**560,647**	**70,844**	**87,329**	**87,466**	**1,928,832**
Acquisitions through business combinations (Note 10)	36,850	425,608	205,465	18,852	8,277	32,381	727,433
Additions	-	3,742	47,403	5,265	2,559	431,017	489,986
Transfers	-	71,023	238,737	26,350	27,424	(363,534)	-
Disposals	-	(1,291)	(15,140)	(1,987)	(4,580)	(12,162)	(35,160)
Depreciation for the period	-	(42,136)	(157,794)	(23,504)	(20,622)	-	(244,056)
Cost at 31 December 2007	**118,460**	**1,593,816**	**1,170,499**	**142,415**	**153,101**	**175,168**	**3,353,459**
Accumulated depreciation	**-**	**(95,934)**	**(291,181)**	**(46,595)**	**(52,714)**	**-**	**(486,424)**
Carrying amount at 1 January 2008	**118,460**	**1,497,882**	**879,318**	**95,820**	**100,387**	**175,168**	**2,867,035**
Acquisitions through business combinations (Note 10) and contribution to charter capital (Note 25)	-	620,295	166,952	4,110	9,139	35,313	835,809
Additions	857	62,357	392,837	23,734	36,450	140,002	656,237
Transfers	-	6,693	19,277	2,838	856	(29,664)	-
Disposals	-	(2,869)	(4,290)	(2,336)	(2,144)	(58,680)	(70,319)
Depreciation for the period	-	(62,465)	(188,756)	(29,625)	(27,656)	-	(308,502)
Translation to presentation currency	5,841	(11,478)	(19,361)	(1,769)	(23,828)	(1,292)	(51,887)
Carrying amount at 31 December 2008	**125,158**	**2,110,415**	**1,245,977**	**92,772**	**93,204**	**260,847**	**3,928,373**
Cost at 31 December 2008	**125,158**	**2,263,606**	**1,708,552**	**162,978**	**167,508**	**260,847**	**4,688,649**
Accumulated depreciation	**-**	**(153,191)**	**(462,575)**	**(70,206)**	**(74,304)**	**-**	**(760,276)**
Carrying amount at 1 January 2009	**125,158**	**2,110,415**	**1,245,977**	**92,772**	**93,204**	**260,847**	**3,928,373**
Acquisitions through business combinations (Note 10)	10,746	90,274	25,886	1,174	2,967	-	131,047
Additions	7,637	45,914	115,650	8,418	34,413	104,066	316,098
Transfers	-	138,731	46,296	-	3,670	(188,697)	-
Disposals	(5,098)	(2,166)	(7,606)	28	(2,118)	(30,603)	(47,563)
Impairment charge	-	(1,850)	(6,699)	-	(1,082)	(927)	(10,558)
Depreciation for the period	-	(74,974)	(192,811)	(24,381)	(30,420)	-	(322,586)
Translation to presentation currency	(713)	(23,792)	(13,824)	(1,284)	(609)	218	(40,004)
Carrying amount at 31 December 2009	**137,730**	**2,282,552**	**1,212,869**	**76,727**	**100,025**	**144,904**	**3,954,807**
Cost at 31 December 2009	**137,730**	**2,510,359**	**1,866,313**	**167,577**	**202,145**	**145,831**	**5,029,955**
Accumulated depreciation and impairment	**-**	**(227,807)**	**(653,444)**	**(90,850)**	**(102,120)**	**(927)**	**(1,075,148)**
Carrying amount at 31 December 2009	**137,730**	**2,282,552**	**1,212,869**	**76,727**	**100,025**	**144,904**	**3,954,807**

7 Property, Plant and Equipment (continued)

As of 31 December 2009, the Group's property, plant and equipment for a total of RR 1,009,149 had been pledged as security for loans (2008: RR 138,006; 2007: RR 192,522) (Note 16).

The Group leases plant and equipment under a finance lease arrangements. As of 31 December 2009, the gross book value of the leased equipment was RR 100,357 (2008: RR 100,357; 2007: RR 102,537), accumulated depreciation was RR 34,870 (2008: RR 21,807; 2007: RR 9,557).

Construction-in-progress includes advances for capital expenditures for a total of RR 49,843 as of 31 December 2009 (2008: RR 62,171; 2007: RR 68,008).

Non-current assets impairment test. Due to impairment indicators occurred at the end of 2008 and 2009 the impairment test was performed for certain cash-generating units (CGUs).

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Based on the results of these calculations the Group recognized an impairment loss as of 31 December 2009 and for the year then ended: RR 10,558 for property, plant and equipment and RR 3,290 for other intangible assets related to Electrodvigatel OJSC (Note 8).

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2009	2008
Growth rate beyond five years	3%	0.1%
Pre-tax discount rate	From 16% to 22%	17%

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports.

The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

8 Other Intangible Assets

	Patents	Licensed techno-logy	Acquired software license	Customer relation-ships	Trade-marks	Websites	Total
Carrying amount at 1 January 2007	**11,795**	**3,013**	**3,493**	**52,980**	**-**	**26**	**71,307**
Cost at 1 January 2007	**18,554**	**5,697**	**4,250**	**52,980**	**-**	**26**	**81,507**
Accumulated amortization and impairment	**(6,759)**	**(2,684)**	**(757)**	**-**	**-**	**-**	**(10,200)**
Acquisitions through business combinations (Note 10)	-	1,120	2,112	-	-	-	3,232
Additions	1,287	4,088	9,413	-	-	-	14,788
Disposals	(6,790)	(1,269)	(1,563)	-	-	-	(9,622)
Amortization for the year	(2,485)	(754)	(3,382)	(26,490)	-	(5)	(33,116)
Carrying amount at 1 January 2008	**3,807**	**6,198**	**10,073**	**26,490**	**-**	**21**	**46,589**
Cost at 1 January 2008	**7,405**	**9,282**	**13,587**	**52,980**	**-**	**26**	**83,280**
Accumulated amortization and impairment	**(3,598)**	**(3,084)**	**(3,514)**	**(26,490)**	**-**	**(5)**	**(36,691)**
Acquisitions through business combinations (Note 10) and capital contribution (Note 25)	11,269	23	3,853	7,518	14,104	43	36,810
Additions	390	5,760	6,926	-	-	-	13,076
Disposals	(1,346)	-	(3,346)	-	-	-	(4,692)
Amortization for the year	(2,296)	(3,494)	(3,739)	(29,251)	(535)	(11)	(39,326)
Translation to presentation currency	202	-	1	252	525	2	982
Carrying amount at 31 December 2008	**12,026**	**8,487**	**13,768**	**5,009**	**14,094**	**55**	**53,439**
Cost at 31 December 2008	**12,576**	**13,097**	**18,429**	**7,595**	**14,528**	**70**	**66,295**
Accumulated amortization	**(550)**	**(4,610)**	**(4,661)**	**(2,586)**	**(434)**	**(15)**	**(12,856)**
Carrying amount at 1 January 2009	**12,026**	**8,487**	**13,768**	**5,009**	**14,094**	**55**	**53,439**
Acquisitions through business combinations (Note 10)	-	2,390	-	-	-	-	2,390
Additions	19	4,638	10,131	-	3,935	1,134	19,857
Disposals	(6)	(1,565)	(969)	(213)	-	-	(2,753)
Impairment charge		(700)	(2,590)	-	-	-	(3,290)
Amortization for the year	(2,990)	(4,168)	(6,720)	(4,504)	(2,944)	(75)	(21,401)
Translation to presentation currency	(1,198)	(13)	(25)	320	(215)	(2)	(1,133)
Carrying amount at 31 December 2009	**7,851**	**9,069**	**13,595**	**612**	**14,870**	**1,112**	**47,109**
Cost at 31 December 2009	**11,015**	**15,955**	**26,767**	**4,893**	**18,108**	**1,201**	**77,939**
Accumulated amortization and impairment	**(3,164)**	**(6,886)**	**(13,172)**	**(4,281)**	**(3,238)**	**(89)**	**(30,830)**
Carrying amount at 31 December 2009	**7,851**	**9,069**	**13,595**	**612**	**14,870**	**1,112**	**47,109**

9 Goodwill

Movements in goodwill on acquisition of the subsidiaries:

	Note	2009	2008	2007
Gross book value as of 1 January		306,682	207,329	16,757
Accumulated impairment as of 1 January		-	-	-
Carrying amount as of 1 January		**306,682**	**207,329**	**16,757**
Acquisitions of subsidiary	10	117,308	99,353	190,572
Impairment of goodwill		(116,998)	-	-
Carrying amount as of 31 December		**306,992**	**306,682**	**207,329**
Gross book value as of 31 December		423,990	306,682	207,329
Accumulated impairment losses as of 31 December		(116,998)	-	-
Carrying amount as of 31 December		**306,992**	**306,682**	**207,329**

Goodwill impairment test

Goodwill is allocated to cash generating units (CGU), which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment for segment reporting purposes as follows:

	2009	2008	2007
Hydromash-Industria LLC	4,519	4,519	-
Tomskgazstroy OJSC	16,757	16,757	16,757
Rostovskiy Vodokanalproekt OJSC	72,717	94,834	-
Trest Sibkomplektmontazhnaladka OJSC	95,691	190,572	190,572
EPF "SIBNA" Inc. JSC	117,308	-	-
Total carrying amount of goodwill	**306,992**	**306,682**	**207,329**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2009	2008	2007
Growth rate beyond five years	3%	0.1%	0.1%
Pre-tax discount rate	From 16% to 22%	17%	13%

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports.

The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

As a result of impairment test performed for certain CGUs an impairment loss related to Trest Sibkomplektmontazhnaladka OJSC (RR 94,881) and Rostovskiy Vodokanalproekt OJSC (RR 22,117) was identified and recognized in the these consolidated financial statements.

10 Business Combinations

In June 2009 the Group obtained control over EPF "SIBNA" Inc. JSC by increasing ownership interest from 29.9% to 76.7% for the purchase consideration of RR 247,896, paid in cash. The acquired entity's activity is the sales and repair oil and gas equipment, design of instrumentation technology. The acquired company contributed revenue of RR 108,799 and gain of RR 16,365 to the Group for the period from the date of acquisition to 31 December 2009. Had the acquisition occurred on 1 January 2009, the revenue from the acquired business would have been RR 176,596, and profit would have been RR 18,645 for the year ended 31 December 2009.

The summary of assets acquired and liabilities assumed are as follows:

	EPF "SIBNA" Inc. JSC Fair value
Property, plant and equipment	131,047
Intangible assets	2,390
Other long-term receivables	1,186
Inventories	62,414
Trade and other receivables	30,785
Cash and cash equivalents	8,090
Deferred tax liability	(16,445)
Pension liability	(2,724)
Trade and other payable	(9,946)
Pension liability	(494)
Other taxes payable	(3,937)
Fair value of net assets	**202,366**
Less: Minority interest	(9,335)
Less: Fair value of the interest in associate previously held	(62,443)
Fair value of acquired interest in net assets	**130,588**
Goodwill	117,308
Total purchase consideration	**247,896**
Less: cash and cash equivalents of subsidiaries acquired	(8,090)
Outflow of cash and cash equivalents on acquisition	**239,806**

The goodwill is primarily attributable to the profitability of the acquired businesses, the significant synergies and combined costs savings expected to arise.

The valuation of identifiable tangible and intangible assets was performed by an independent professional appraiser.

The acquired entity did not prepare IFRS financial statements prior to the acquisition. Management believes that determination of IFRS carrying amounts immediately before the acquisition is impractical.

Acquisition/disposal of minority interest in subsidiaries

In January 2009, the Group acquired an additional 1.4% interest in Trest Sibkomplektmontazhnaladka OJSC for RR 1,900, paid in cash. As a result of this transaction, the Group increased its ownership interest in Trest Sibkomplektmontazhnaladka OJSC from 98.6% to 100% decreasing the minority interest by RR 2,713.

During 2009, in a series of transactions, the Group acquired an additional 15.89% interest in Tomskgazstroy OJSC for RR 144,296 paid in cash. As a result of these transactions, the Group increased its ownership interest in Tomskgazstroy OJSC from 62.01% to 77.90% decreasing the minority interest by RR 59,083.

In February 2009 the Group acquired an additional 0.01% interest in Nizhnevartovskremservice CJSC for RR 24, paid in cash. In June 2009, the Group transferred 19.84% interest in Nizhnevartovskremservice CJSC from HYDROMASHSERVICE CJSC to Neftemash OJSC. As a result of these transactions, the Group decreased its ownership interest in Nizhnevartovskremservice OJSC from 100% to 80.16% increasing the minority interest by RR 55,029.

10 Business Combinations (continued)

Acquisition/disposal of minority interest in subsidiaries (continued)

In March 2009, the Group acquired an additional 10.36% interest in Livnynasos OJSC for RR 62,086, paid in cash. As a result of this transaction, the Group increased its ownership interest in Livnynasos OJSC from 70% to 80.36% decreasing the minority interest by RR 39,885.

In August 2009, the Group acquired an additional 0.31% interest in Electrodvigatel OJSC for RR 26, paid in cash. As a result of this transaction, the Group increased its ownership interest in Electrodvigatel OJSC from 56.58% to 56.89% decreasing the minority interest by RR 11.

In September 2009, the Group transferred interest in SPA Gydromash CJSC from HYDROMASHSERVICE CJSC to Nasosenergomash OJSC in 99.53%. As a result of this transaction, the Group decreased its ownership interest in SPA Gydromash CJSC from 99.53% to 82.89% increasing the minority interest by RR 22,327.

In September 2009, the Group acquired an additional 0.28% interest in Nasosenergomash OJSC for RR 467, paid in cash. As a result of this transaction, the Group increased its ownership interest in Nasosenergomash OJSC from 83.00% to 83.28% decreasing the minority interest by RR 2,514.

In 2009, the Group transferred interest in Hydraulic Machines and Systems Management LLC between the companies of the Group. As a result of these transactions, the Group increased its effective ownership interest in Hydraulic Machines and Systems Management LLC from 98.1% to 98.9% and decreased the minority interest by RR 2,305.

Acquisitions made in 2008

In March 2008 the Group acquired a 100% interest in Hydromash-Industria LLC for RR 10,325 paid in cash. The acquired subsidiary is engaged in the design of pumping equipment and spare parts. The cost of acquisition was allocated to the assets acquired and liabilities assumed. The acquired company contributed revenue of RR 16,601 and loss of RR 1,657 to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, the revenue from the acquired business would have been RR 19,249, and loss would have been RR 2,104 for the year ended 31 December.

In November 2008 the Group acquired a 99.5% interest in SPA Gidromash CJSC, for a consideration of RR 129,754 paid in cash. The acquired entity's activity is the production and sale of pumps and related equipment. The acquired entity contributed revenue of RR 42,240 and loss of RR 13,056 to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, the revenue from the acquired business would have been RR 319,904, and profit would have been RR 19,316 for the year ended 31 December.

In December 2008 the Group acquired a 72.03% interest in Institute Rostovskiy Vodokanalproekt OJSC for a consideration of RR 163,049, paid in cash. The acquired entity's activity is the design of water-supply systems, sewage systems and related equipment. If the acquisition had occurred on 1 January 2008, the revenue from the acquired business would have been RR 137,500, and profit would have been RR 17,565 for the year ended 31 December.

In December 2008 the Group obtained control over Promburvod Plant OJSC by increasing its share from 40% (Note 11) to 51.4% for purchase consideration of RR 5,075, paid in cash. The acquired entity's activity is the production and sale of pumps and related equipment. If the acquisition had occurred on 1 January 2008, the revenue from the acquired business would have been RR 248,213, and loss would have been RR 7,912 for the year ended 31 December 2008.

10 Business Combinations (continued)

Acquisitions made in 2008 (continued)

The summary of assets acquired and liabilities assumed are as follows:

	Hydromash-Industria LLC	Rostovskiy Vodokanalproekt OJSC	SPA Gidromash CJSC	Promburvod Plant OJSC
	Attributed fair value	Attributed fair value	Attributed fair value	Attributed fair value
Property, plant and equipment	100	109,990	124,509	161,415
Intangible assets	4,893	3,794	22,063	6,050
Investment in associate	-	11,270	-	-
Other long-term receivables	-	-	-	348
Inventories	3,125	23,196	58,126	80,608
Trade and other receivables	2,934	34,097	49,773	13,371
Cash and cash equivalents	634	32,449	7	13,969
Long-term borrowings	-	-	-	(788)
Deferred tax liability	(1,483)	(17,451)	(21,815)	(21,639)
Pension liability	-	-	-	(3,588)
Other provisions for liabilities and charges	-	-	-	(156)
Trade and other payable	(3,729)	(85,084)	(70,193)	(46,395)
Short-term borrowings	(500)	(11)	(6,685)	(11,305)
Pension liability	-	-	(428)	(700)
Current income tax payable	-	(4,254)	(4,711)	(687)
Other taxes payable	(168)	(13,292)	(2,400)	(3,932)
Fair value of net assets	**5,806**	**94,704**	**148,246**	**186,571**
Less: Minority interest	-	(26,489)	(692)	(90,705)
Less: Fair value of previously held interest in associate	-	-	-	(74,633)
Fair value of acquired interest in net assets	**5,806**	**68,215**	**147,554**	**21,233**
Goodwill	4,519	94,834	-	-
Excess of the Group's share of the fair value of acquired net assets over the purchase price	-	-	(17,800)	(16,158)
Total purchase consideration	**10,325**	**163,049**	**129,754**	**5,075**
Less: cash and cash equivalents of subsidiaries acquired	(634)	(32,449)	(7)	(13,969)
Outflow of cash and cash equivalents on acquisition	**9,691**	**130,600**	**129,747**	**(8,894)**

The goodwill is primarily attributable to the profitability of the acquired businesses, the significant synergies and combined costs savings expected to arise.

The valuation of identifiable tangible and intangible assets was performed by an independent professional appraiser.

The acquired entities did not prepare IFRS financial statements prior to the acquisition. Management believes that determination of IFRS carrying amounts immediately before the acquisition is impractical.

Acquisition and disposal of minority interest in subsidiaries in 2008

In January 2008, the Group sold 0.5% interest in Livhydromash OJSC for RR 766, respectively, paid in cash. As a result of this transaction, the Group decreased its ownership interest in Livhydromash OJSC from 96.3% to 95.8% increasing the minority interest by RR 2,588. Also the Group decreased its ownership interest in Livnynasos OJSC from 70.2% to 70.0% increasing the minority interest by RR 1,072.

10 Business Combinations (continued)

Acquisition and disposal of minority interest in subsidiaries in 2008 (continued)

In February 2008, the Group acquired an additional 1.4% interest in Trest Sibkomplektmontazhnaladka OJSC for RR 1,419, respectively, paid in cash. In August 2008, the Group acquired an additional 0.2% interest in Trest Sibkomplektmontazhnaladka OJSC for RR 160, respectively, paid in cash. As a result of these transactions, the Group increased its ownership interest in Trest Sibkomplektmontazhnaladka OJSC from 97.0% to 98.6% decreasing the minority interest by RR 5,190.

In June 2008, Tomskgazstroy OJSC increased its share capital by RR 20,000 through issuing of 100 thousand of preference shares with the nominal value of RR 200 each. Preference shares were sold to related parties (ultimate beneficiaries of the Group). In August 2008, the Group acquired an additional 2.1% interest in Tomskgazstroy OJSC for RR 4,471, respectively, paid in cash. As a result, the effective interest in the subsidiary owned by the Group increased from 50.7% to 62% and minority interest decreased by RR 36,613.

In November 2008, the Group transferred ownership interest in Sibservis LLC from HYDROMASHSERVICE CJSC to HYDROMASHINPROM CJSC. As a result of these transactions, the Group decreased its ownership interest in Sibservis LLC from 100% to 71.3% increasing the minority interest by RR 7,688.

In November 2008, the Group reallocated interest in Hydraulic Machines and Systems Management LLC between companies of the Group. As a result of these transactions, the Group increased its ownership interest in Hydraulic Machines and Systems Management LLC from 84.2% to 98.1% and decreased the minority interest by RR 10,217.

Acquisitions made in 2007

In July 2007 the Group acquired, through a series of transactions, a 73.9% interest in Trest Sibkomplektmontazhnaladka OJSC for RR 428,359 paid in cash.

The acquired subsidiary engaged in the construction and assembly of infrastructure assets for oilfield deposits. The cost of acquisition was allocated to the assets acquired and liabilities assumed. The acquired company contributed revenue of RR 1,894,055 and profit of RR 40,140 to the Group for the period from the date of acquisition to 31 December 2007. If the acquisition had occurred on 1 January 2007, the revenue from the acquired business would have been RR 2,902,272 thousand, and profit would have been RR 47,548 thousand for 2007.

The summary of assets acquired and liabilities assumed are as follows:

	Attributed fair value
Property, plant and equipment	727,433
Intangible assets	3,232
Other non-current assets	155
Inventories	578,193
Trade receivables	97,167
Taxes and levies receivable	3,998
Other accounts receivable	236,467
Promissory notes receivables	52,307
Cash and cash equivalents	30,117
Deferred tax liability	(67,902)
Borrowings	(42,500)
Trade and other payable	(1,252,483)
Finance lease liability	(43,267)
Fair value of net assets	**322,917**
Less: Minority interest	(85,130)
Fair value of acquired interest in net assets	**237,787**
Goodwill	190,572
Total purchase consideration	**428,359**
Less: cash and cash equivalents of subsidiaries acquired	(30,117)
Outflow of cash and cash equivalents on acquisition	**398,242**

10 Business Combinations (continued)

Acquisitions made in 2007 (continued)

The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined costs savings expected to arise.

The valuation of identifiable tangible and intangible assets was performed by an independent professional appraiser.

The acquired entity did not prepare IFRS financial statements prior to the acquisition. Management believes that determination of IFRS carrying amounts immediately before the acquisition is impractical.

Acquisition of minority interest in subsidiaries in 2007

In August and November 2007 the Group acquired an additional 13% and 10% interest in Trest Sibkomplektmontazhnaladka OJSC for RR 12,966 and RR 9,757, respectively, paid in cash. As a result of these transactions the Group increased its ownership interest in Trest Sibkomplektmontazhnaladka OJSC from 73.9% to 96.9% decreasing the minority interest by RR 83,066.

During 2007 the Group acquired an additional 12% interest in Neftemash OJSC for RR 9,662 paid in cash. As a result of the transaction the Group increased its ownership interest in Neftemash OJSC from 68% to 80% decreasing the minority interest by RR 75,706.

In November 2007 the Group acquired an additional 28% interest in Tomskgazstroy OJSC for RR 56,782 paid in cash. As a result of the transaction the Group increased its ownership interest in Tomskgazstroy OJSC from 23% to 51% decreasing the minority interest by RR 109,251.

Increase in effective shareholding in Neftemash OJSC led to the corresponding increase in effective shareholding in Livnynasos OJSC by 2% and consequently to decrease in minority interest by RR 8,562.

11 Investments in Associates

In June 2009 the Group increased its interest by 8.03% in Dimitrovgradkhimmash OJSC for RR 122,756 paid in cash. The Group's share within associated net assets as at acquisition date was RR 61,589.

In February 2009 one of the Group's subsidiaries – the Institute Rostovskiy Vodokanalproekt OJSC disposed its interest of 35.29% in Vodokanalproektirovanie LLC through the return of capital contribution previously made by property, plant and equipment.

Investments in associates at 31 December 2009 include goodwill of RR 128,221 (31 December 2008: RR 70,418; 31 December 2007: RR 67,265).

The Group's investments in associates are as follows:

	31 December 2009	31 December 2008	31 December 2007
Carrying amount at 1 January	**449,848**	**416,860**	**-**
Cost of acquisition of associates	122,756	50,605	398,731
Acquisition through business combination (Note 10)	-	11,270	-
Cost of disposal of associates	(11,031)	-	-
Reclassification due to acquisition of controlling interest	(62,443)	(38,632)	-
The excess of fair value of the net assets acquired over the cost of acquisition	-	9,155	9,680
Dividends	(10,313)	(8,359)	-
Share of after tax results of associates	17,193	40,289	8,449
Translation to presentation currency	1,283	(31,340)	-
Carrying amount at 31 December	**507,293**	**449,848**	**416,860**

11 Investments in Associates (continued)

As of 31 December 2009, the Group's interest in associates and total financial information including assets, liabilities, revenue and gains and losses are as follows:

Name of associate	Total assets	Total liabilities	Revenue	Profit/(loss) after tax	Interest in associate	Location
Dimitrovgradkhimmash OJSC	1,034,601	258,265	910,840	77,297	38.02%	Russian Federation
VNIIAEN OJSC	198,571	21,075	76,404	(14,224)	47.18%	Ukraine

As of 31 December 2008, the Group's interest in associates and total financial information including assets, liabilities, revenue and profit and losses are as follows:

Name of associate	Total assets	Total liabilities	Revenue	Profit/(loss) after tax	Interest in associate	Location
Dimitrovgradkhimmash OJSC	1,047,956	314,166	1,050,914	96,418	29.99%	Russian Federation
VNIIAEN OJSC	241,836	52,849	73,336	24,169	47.18%	Ukraine
Vodokanalproektirovanie LLC	22,469	146	840	(677)	35.29%	Russian Federation
EPF "SIBNA" Inc. JSC*	249,063	39,903	132,935	8,115	29.91%	Russian Federation

* The entity has become a subsidiary in 2009 (Note 10).

As of 31 December 2007, the Group's interest in associates and total financial information including assets, liabilities, revenue and gains and losses are as follows:

Name of associate	Total assets	Total liabilities	Revenue	Profit/(loss) after tax	Interest in associate	Location
Dimitrovgradkhimmash OJSC	943,619	275,982	270,674	29,927	29.99%	Russian Federation
Promburvod Plant OJSC*	138,592	39,300	94,105	5,741	40%	Belorussia
VNIIAEN OJSC	231,810	89,499	7,912	(4,042)	47.18%	Ukraine

* The entity has become a subsidiary in 2008 (Note 10).

Impairment test for investment in associates. Due to impairment indicators occurred at the end of 2008 and 2009 the impairment test was performed for investments in associates.

The entire carrying amount of investment in each associate was tested for impairment by comparing its carrying amount with recoverable amount determined based on value-in-use calculations. These calculations are based on financial budgets approved by management covering a five-year period and use cash flow projections expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment. The recoverable amount of VNIIAEN OJSC was tested for impairment together with Nasosenergomash OJSC, Livhydromash OJSC and SPA Gidromash CJSC as the associate does not generate cash inflows from continuing use that are largely independent of those from these entities.

Based on the results of these calculations the Group concluded that no impairment charge is required.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2009	2008
Growth rate beyond five years	3%	0.1%
Pre-tax discount rate	From 16% to 22%	17%

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports.

The discount rates used are pre-tax and reflect specific risks relating to the relevant investment.

12 Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	31 December 2009	31 December 2008	31 December 2007
Cash on hand	719	1,080	2,392
RR denominated balances with banks	268,069	234,553	271,796
Foreign currency denominated balances with banks	107,088	52,778	22,625
RR denominated bank deposits	381,045	381,071	4,653
Promissory notes receivable on demand	-	-	72,633
Other cash equivalents	740	-	3,104
	757,661	**669,482**	**377,203**

As at 31 December 2009 the closing balance of short-term bank deposits comprised short-term bank deposit in six banks with a 1-13% interest rate (2008: 3-13% – two banks; 2007: 0,1% – one bank).

Restricted cash

Restricted cash of RR 905 (2008: RR 620; 2007: RR 890) represents minimum balances for settlement and corporate plastic cards balances.

13 Inventories

	31 December 2009	31 December 2008	31 December 2007
Materials and components	951,228	978,006	601,388
Inventory for implementation of construction contracts	1,072,281	334,652	394,404
Work in progress	414,879	413,293	403,061
Finished goods and Goods for resale	838,670	763,869	505,559
Other inventories	127,087	59,206	16,772
Provision for obsolete inventories	(224,501)	(116,522)	(68,226)
	3,179,644	**2,432,504**	**1,852,958**

At 31 December 2009 inventories of RR 527,890 were pledged as collateral for borrowings (2008: RR 77,991; 2007: RR 204,823) (Note 16).

The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 28.

14 Trade and Other Receivables

	31 December 2009	31 December 2008	31 December 2007
Trade receivables	1,507,542	1,541,870	2,354,203
Less: provision for impairment of trade receivables	(111,184)	(126,729)	(51,387)
Promissory notes receivable	3,533	17,760	17,395
Promissory notes receivable on demand	2,706		
Bank deposits receivable	24,518	38,500	15,000
Short-term loans issued	103,667	87,933	67,620
Other receivables	78,954	81,915	55,753
Less: provision for impairment	(23,189)	(7,822)	(12,242)
Receivable due from customers for construction work in pogress (Note19)	154,388	211,621	60,227
Less: provision for receivable due from customers for construction work in progress	(95,560)	-	-
Financial assets within Trade and other receivables – net	**1,645,375**	**1,845,048**	**2,506,569**
Advances to suppliers	714,059	830,350	1,011,597
VAT receivable	585,816	419,784	412,093
Provision for VAT receivable	(32,802)	(2,884)	-
Other taxes receivable	15,377	9,569	4,350
Less: provision for impairment	(52,070)	(73,979)	(65,515)
Non-financial assets within other receivables – net	**1,230,380**	**1,182,840**	**1,362,525**
Total trade and other receivables	**2,875,755**	**3,027,888**	**3,869,094**

14 Trade and Other Receivables (continued)

Current trade receivables consist of trade receivables for goods shipped and services delivered.

As of 31 December 2009, trade receivables of RR 111,184 (2008: RR 126,729; 2007 RR 51,387) and other financial receivables of RR 118,749 (2008: RR 7,822; 2007 RR 12,242) were impaired and provided for. The individually impaired trade and other receivables mainly relate to counterparties, which are in unexpectedly difficult economic situations. Provision for receivable due from customers for construction work in progress of RR 95,560 as of 31 December 2009 relates to one customer, Gazpromstroy LLC, for increased cost of materials used in construction. The Group pursued legal actions against the company but latest court holdings were judged for the defendant.

Advances to suppliers' included advances made for the acquisition of businesses of RR 254,980 as at 31 December 2008 and RR 199,399 as at 31 December 2007. No advances were made as at 31 December 2009 for acquisition of businesses.

As of 31 December 2009, 2008, 2007 VAT recoverable consists mainly of tax charged on advances from customers. This amount will be recovered as goods, work and services are provided in 2010. Also, the VAT amount includes export tax which will reduce the VAT payable to the state budget after confirmation from tax authorities is received in 2010.

	2009		2008		2007	
	Trade receivables	Other receivables	Trade receivables	Other receivables	Trade receivables	Other receivables
Provision of financial assets for impairment at 1 January	**126,729**	**7,822**	**51,387**	**12,242**	**23,036**	**36,735**
Provision for receivables impairment	-	110,927	28,650	-	28,351	-
Unused amounts reversed	(19,459)	-	-	(4,420)	-	(24,493)
Business combinations	3,914	-	46,692	-	-	-
Provision of financial assets for impairment at 31 December	**111,184**	**118,749**	**126,729**	**7,822**	**51,387**	**12,242**

Provision of Non financial assets within other receivables presented below:

	2009	2008	2007
Provision of Non financial assets for impairment at 1 January	**73,979**	**65,515**	**-**
Provision for receivables impairment	-	8,464	65,515
Receivables written off during the year as uncollectible	-	-	-
Unused amounts reversed	(21,909)	-	-
Provision of Non financial assets for impairment at 31 December	**52,070**	**73,979**	**65,515**

The carrying amounts of the Group's financial assets within Trade and other receivables are denominated in the following currencies:

	31 December 2009	31 December 2008	31 December 2007
RR	1,562,076	1,618,062	1,360,380
USD	52,630	41,523	89,114
EURO	11,151	26,953	991,946
UAH	8,190	152,478	65,129
BYR	11,328	6,032	-
	1,645,375	**1,845,048**	**2,506,569**

15 Other Long-term Receivables

	31 December 2009	31 December 2008	31 December 2007
Long-term loans issued	37	112	34,211
Loan impairment provision	-	-	(5,112)
Long term trade receivables	4,349	-	12,638
Long-term deposits receivable	11,421	-	-
Financial assets within other long-term receivables	**15,807**	**112**	**41,737**
Other non-current assets	17,555	17,173	9,174
	33,362	**17,285**	**50,911**

16 Borrowings

	Interest rate	Denominated in	Maturity	31 December 2009	31 December 2008	31 December 2007
Long-term loan:						
Bonds	9.9%	RR	November 2009	-	153,045	1,009,221
Long-term loan 1	16.75%	RR	August 2012	800,000	-	-
Long-term loan 2	15%	RR	December 2012	500,000	-	-
Long-term loan 3	13%	BYR	January 2010	-	787	-
Long-term loan 4	16%	RR	February 2012	873,113	-	1,730
Long-term loan 5	16.77%	RR	April 2014	995,667	-	-
Long-term loan 6	16.77%	RR	May 2014	110,000	-	-
Long-term loan 7	MosPrime+ 3.5%	RR	December 2011	100,000	-	-
Long-term loan 8	MosPrime+ 5.35%	RR	December 2011	17,986	-	-
Long-term loan 9	11%	US dollar	September 2009			50,901
				3,396,766	**153,832**	**1,061,852**
Less: short-term portion of loan				-	(153,045)	(1,009,221)
				3,396,766	**787**	**52,631**

In October 2006 one of the Group subsidiaries, HYDROMASHSERVICE CJSC, issued 1,000 thousand non-convertible three-year Russian Rouble denominated bonds (at par value 1,000 roubles each) for RR 1,000,000. The bonds bear interest rate of 9.9% per annum. The interest is payable every nine months. The bonds were repaid at 24 November 2009.

As of 31 December 2009, 2008 and 2007 the fair value of long-term borrowings approximates their carrying amount.

	Interest rate	Denominated in	31 December 2009	31 December 2008	31 December 2007
Short-term unsecured bank loans and borrowings					
Unsecured bank loan 1	15%	RR	1,050,000	2,991,440	1,603,300
Unsecured bank loan 2	MosPrime+ 4,7%	RR	62,500	500,000	100,000
Unsecured bank loan 3	16,5%	RR	388,121	148,066	-
Unsecured bank loan 4	13-18%	RR	-	45,000	-
Unsecured bank loan 6	LIBOR+ 8,75%	USD	238,929	-	-
Unsecured loan 5	15,5%	RR	33,000	15,000	-
			1,772,550	**3,699,506**	**1,703,300**

16 Borrowings (continued)

	Interest rate	Denominated in	31 December 2009	31 December 2008	31 December 2007
Short-term secured bank loans					
Secured bank loan 1	16%	RR	3,230	-	95,000
Secured bank loan 2	16%	RR	40,988	-	9,737
Secured bank loan 3	10,75%	USD	30,299	128,769	47,070
Secured bank loan 4	23%	UAH	11,210	3,470	28,296
Secured bank loan 5	14,5%	UAH	-	3,470	4,674
Secured bank loan 6	23%	RR	10,958	47,034	-
Secured bank loan 7	16,5%	USD	-	13,170	-
Secured bank loan 8	9,5%	EUR	-	10,416	-
Secured bank loan 9	23%	BYR	2,202	9,506	-
Secured bank loan 10	24%	UAH	-	7,731	-
Secured bank loan 11	0%	BYR	-	1,764	-
			98,887	**225,330**	**184,777**
Current portion of long-term loans				153,045	1,009,221
Interest on short-term borrowings			7,337	4,041	1,554
Short-term loans and borrowings			**1,878,774**	**4,081,922**	**2,898,852**

The Group's borrowings are denominated in the following currencies:

	31 December 2009	31 December 2008	31 December 2007
RR	4,991,739	3,903,624	2,820,542
USD	269,895	141,939	97,971
EURO	-	10,416	-
BYR	2,272	12,059	-
UAH	11,634	14,671	32,970
	5,275,540	**4,082,709**	**2,951,483**

As at 31 December 2009 the Group pledged property, plant and equipment and inventories in total amounts of RR 1,009,149 and 527,890 (2008: RR 138,006 and RR 77,991; 2007: RR 192,522 and RR 204,823), 25% and one share of Neftemash OJSC, pledge of property rights with pledge value RR 410,570 respectively, as a security for borrowings.

As of 31 December 2009, 2008 and 2007 the fair value of short-term borrowings approximate their carrying amount.

The Group has not entered into any hedging agreements in respect of its foreign currency or interest rate obligations.

17 Finance Lease Liabilities

The finance lease liabilities carry the effective rate of interest of 22.1% in 2009 (2008: 22.7%; 2007: 22.7%) and are effectively collateralized by the leased assets, as the assets revert to the lessor in the event of default.

	Minimum lease payments as at 31 December			Discounted value of minimum lease payments as at 31 December		
	2009	2008	2007	2009	2008	2007
Finance lease payable:						
Not later than 1 year	16,512	27,022	35,832	13,094	19,776	22,816
Later than 1 year and not later than 5 years	9,225	25,932	52,762	8,479	21,767	41,388
Total	**25,737**	**52,954**	**88,594**	**21,573**	**41,543**	**64,204**
Future finance charges on finance lease	(4,164)	(11,411)	(24,390)	-	-	-
Present value of liabilities	**21,573**	**41,543**	**64,204**	**21,573**	**41,543**	**64,204**
Short-term finance lease liabilities	-	-	-	**13,094**	**19,776**	**22,816**
Long-term finance lease liabilities	-	-	-	**8,479**	**21,767**	**41,388**

18 Retirement Benefit Obligations

The entities within the Group provide post-employment and other long-term payments of a defined benefit nature to its employees. These defined benefit plans maintained by each entity separately include lump sum upon retirement, in case of disability, death or attaining jubilee age as well as financial support after retirement. All plans are completely unfunded, i.e. provided on pay-as-you-go basis.

Liability arisen from these plans was calculated by an external actuary in accordance with benefit formula based on individual census data using Projected Unit Credit Method as required by *IAS 19, Employee Benefits*. Assumptions were determined based on market conditions as at statement of financial position dates.

The following assumptions were used for the actuarial assessment as of 31 December 2009, 2008 and 2007:

	2009	2008	2007
Discount rate	9%	9%	6.8%
Inflation	6,5%	7%	6%
Expected annual increase in salaries	7.5%	7.5%	9%
Mortality	USSR, 1985-1986	USSR, 1985-1986	USSR, 1985-1986

The following amounts were recognized in the profit or loss:

	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007
Current service cost	12,378	16,673	3,220
Interest cost	17,113	10,861	7,820
Past service cost	(194)	18,872	-
Net actuarial (gain)/loss recognised during the year	(11,624)	(21,605)	34,090
Net periodic benefit cost	**17,673**	**24,801**	**45,130**

Expenses relating to this plan were recognized in the general and administrative expenses.

The amounts recognized in the consolidated statement of financial position were as follows:

	31 December 2009	31 December 2008	31 December 2007
Present value of defined benefit obligations	145,319	149,754	129,952
Unrecognised actuarial (gains)/losses	-	-	-
Unrecognised past service cost	1,010	(11,614)	-
Liability in the statement of financial position	**146,329**	**138,140**	**129,952**

Changes in the present value of the Group's pension benefit obligation are as follows:

	31 December 2009	31 December 2008	31 December 2007
Present value of defined benefit obligations at the beginning of the year	149,754	129,952	90,292
Current service cost	12,378	16,673	3,220
Interest expense	17,114	10,861	7,820
Actuarial (gains)/losses	(11,625)	(21,605)	34,090
Benefits paid	(9,849)	(7,619)	(5,470)
Exchange adjustments	(2,853)	(13,907)	-
Liabilities acquired in a business combination	3,218	4,913	-
Past service cost	(12,818)	30,486	-
Present value of defined benefit obligations as at the end of year	**145,319**	**149,754**	**129,952**

Short-term and long-term classification was determined based on discounted value of future obligation which is payable within 12 months from the statement of financial position date:

	31 December 2009	31 December 2008	31 December 2007
Short-term	20,922	17,242	11,676
Long-term	125,407	120,898	118,276
Discounted value of defined benefit obligations as at the end of year	**146,329**	**138,140**	**129,952**

The expected contributions under voluntary pension programs in 2010 are expected in the amount close to RR 11,129.

18 Retirement Benefit Obligations (continued)

	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007
Defined benefit obligation	145,319	149,754	129,952
Plan assets	-	-	-
Deficit/surplus	145,319	149,754	129,952
Experience adjustments on plan liabilities	(8,521)	(14,114)	30,830
Experience adjustments on plan assets	-	-	-

19 Construction Contracts

During 2009 and 2008, 2007 the construction contracts revenue was recognized in relation to stage of completion for each contract. The stage of completion of a contract was determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The following figures represented below related to Groups' subsidiaries performed activities under construction contracts:

	2009	2008	2007
Construction contracts revenue	4,182,873	4,825,847	3,150,626
Contract cost expensed	(3,834,804)	(4,296,536)	(2,876,204)
Gross margin	**348,069**	**529,311**	**274,422**

	2009	2008	2007
Advances, received for construction contracts	140,738	209,294	326,640
Retentions	44,471	35,299	61,739

The Group's financial position with respect to construction contracts in progress is as follows:

	31 December 2009	31 December 2008	31 December 2007
Aggregate amount of contract cost incurred	2,569,400	2,533,515	1,323,516
Aggregate amount of recognized profits	134,279	316,881	120,407
Aggregate amount of recognized losses	(1,097)	-	-
Less: Progress billings	(2,548,194)	(2,638,775)	(1,383,696)
Gross amount due from customers for contract work	**154,388**	**211,621**	**60,227**

	31 December 2009	31 December 2008	31 December 2007
Aggregate amount of contract cost incurred	1,206,334	339,059	2,161,863
Aggregate amount of recognized profits	298,218	104,236	358,378
Aggregate amount of recognized losses	(2,633)	-	(10,123)
Less: Progress billings	(1,665,390)	(491,335)	(2,690,073)
Gross amount due to customers for contract work	**(163,471)**	**(48,040)**	**(179,955)**

Amounts due to and due from customers are disclosed in Notes 14 and 23.

20 Long-term Payables

	31 December 2009	31 December 2008	31 December 2007
Other long-term payables	-	-	13,702
Long-term advances from customers	-	-	1,236
Total long-term payables		**-**	**14,938**

21 Provisions for Liabilities and Charges

	Short-term part of Warranty provision	Long-term part of Warranty provision	Provision for legal claims	Unused vacation allowance
31 December 2006	**2,839**	**-**	**2,342**	**32,470**
Additional provisions	11,817	-	1,266	71,520
31 December 2007	**14,656**	**-**	**3,608**	**103,990**
Additional provisions	12,455	-	19,034	46,316
Unused amounts reversed	-	-	(723)	-
31 December 2008	**27,111**	**-**	**21,919**	**150,306**
Additional provisions	6,600	11,550	17,242	-
Unused amounts reversed	-	-	(3,587)	(10,084)
Business combinations	60	-	179	-
31 December 2009	**33,771**	**11,550**	**35,753**	**140,222**

Warranty. The Group provides warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RR 45,321 has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns.

Legal claims. The main part of provision for legal claims relates to claims brought against the Group by "Uralteploisoliatsiya" LLC relating to collection of debt for executed work. The balance at 31 December 2009 is expected to be utilised by the end of 2010. In the opinion of management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts.

Provision for uncertain tax positions. Management has assessed, based on its interpretation of the relevant tax legislation, that it is probable that certain tax positions taken by the Group would not be sustained, if challenged by the tax authorities. Accordingly, the Group recognized provisions for the associated undeclared taxes and the related penalties and interest. The balance at 31 December 2009 is expected to be either fully utilised or released by the end of 2011 when the inspection rights of the tax authorities with respect to the relevant tax returns expire.

22 Other Taxes Payable

	31 December 2009	31 December 2008	31 December 2007
Value added tax	207,737	247,927	109,036
Personal income tax	24,291	27,294	24,819
Unified social tax	42,532	30,689	35,660
Property tax	11,514	8,049	4,880
Transport tax	2,595	1,639	1,484
Land tax	2,039	1,749	1,100
Water tax	72	41	1,044
Other taxes	2,484	2,706	3,646
Total other taxes payable	**293,264**	**320,094**	**181,669**

23 Trade and Other Payables

	2009	2008	2007
Trade payables	1,264,490	947,258	2,137,632
Other payables	58,110	125,441	90,383
Financial liabilities within trade and other payables	**1,322,600**	**1,072,699**	**2,228,015**
Advances from customers	1,561,765	1,938,074	1,143,941
Payables due to customers for construction work in progress (Note 18)	163,471	48,040	179,955
Wages and salaries payable	207,654	180,046	196,744
Other non-financial payables	**1,932,890**	**2,166,160**	**1,520,640**
Total trade and other payables	**3,255,490**	**3,238,859**	**3,748,655**

24 Share Capital and Earnings per Share

The nominal registered amount of the Company's share capital at 31 December 2009 is RR 591,180 (2008: RR 591,180). At 31 December 2007 the charter capital of the Company consisted of registered, issued and fully paid participant's units for the total par value of RR 218,080. The total authorised number of ordinary shares is 1,182,360,600 (2008: 1,182,360,600) ordinary shares of RR 0.5 par value each.

As at 31 December 2007 the Company was a limited liability company. For such companies, voting rights of participants are determined by their percentage participation in the registered charter capital. Each participant had a right to request that the Company redeems his interest. In accordance with the Company's Charter a participant's share upon withdrawing his interest shall be assessed as a share of the Company's net assets calculated based on the statutory accounting reports for the year in which a participant withdraws his interest. As at 31 December 2007, the net assets of the Company under Russian statutory accounting reports were RR 269,909 and no participants asked the Company for redemption. The Company's Charter established annual profit distribution pro rata to the participant's interest based on the statutory accounting reports of the Company.

On 29 August 2008 the Company changed its legal form from a limited liability company to an open joint stock company named HMS Group OJSC. The interests held by the Company's participants of RR 591,180 exchanged to 1,182,360,600 ordinary shares of RR 0.5 par value each, and the ownership ratios of the participants remained intact. As a result, the Company's equity participants no longer have a right to request redemption of their interests in the Company.

At the end of 2008 the shareholders of the Company transferred some of their ownership interest in the Company into HMS-Holding LLC. As a result of these transactions, HMS-Holding LLC obtained 68.82% interest in the Company. However, the effective ownership interest of shareholders of the Company remained intact.

At 31 December 2008 the retained earnings and other reserves also include a revaluation gain of RR 37,035 resulting from fair value adjustment to the assets and liabilities in the previously held interest of Promburvod Plant OJSC following the acquisition in December 2008.

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2009, the current year net statutory income for the Company as reported in the published annual statutory reporting forms was RR 12,240 (2008: loss of RR 5,209; 2007: income of RR 4,099). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

During 2009, dividends were accrued only to the holders of preference shares in the subsidiaries reflected in the amount of RR 160,009 (2008: RR 291,726 for the whole year; 2007: RR 221,690 for the whole year), but no dividends were paid to shareholders or minority holders of common shares. As a result, allocations of net assets to minority holders of preference shares and common shares were reflected in these consolidated financial statements.

Earnings per share

The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equal the basic earnings per share. Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

Loss for the year from continuing operations attributable to ordinary shareholders is calculated as follows:

	2009	2008
Loss for the year from operations attributable to ordinary shareholders	(18,768)	(24,740)
Weighted average number of ordinary shares in issue (thousands)	1,182,360.6	1,182,360.6
Basic and diluted earnings per ordinary share (expressed in RR per share)	(0.016)	(0.021)

25 Net Assets Attributable to Participants

As at 31 December 2007 there were three participants in the Company:

Participant	Ownership, %	Amount, RR'000
Hydroindustry LLC	42.5	92,684
Hydromashinvest LLC	42.5	92,684
Promhydroservice LLC	15	32,712
	100	**218,080**

25 Net Assets Attributable to Participants (continued)

In May 2008 the participants of the Company increased the charter capital from RR 218,080 to RR 591,180 through making capital contribution of 100% of shares of Hydromashkomplekt LLC with its 100% subsidiary Business Center HYDROMASH LLC to the Group. The principal contributed assets are the office buildings own by the contributed entities and occupied by the Company. The contributed fair value of net assets was allocated according to the ownership ratios of the participants, which remained intact. The difference between the fair value of assets contributed and notional amount of an increase in charter capital is recorded in other reserves.

The summary of assets and liabilities contributed are as follows:

	Hydromashkomplekt LLC	Business-Centre Hydromash LLC	Total
	Attributed fair value	Attributed fair value	Attributed fair value
Cash and cash equivalents	23,355	193	23,548
Property, plant and equipment	86,558	353,237	439,795
Intangible assets	10	-	10
Deferred tax assets	-	-	-
Other non-current assets	39	-	39
Trade and other receivables	23,176	29,080	52,256
Inventories	108	55	163
Borrowings	-	(55,621)	(55,621)
Trade and other payables	(76,431)	(1,163)	(77,594)
Other taxes payable	(346)	(69)	(415)
Deferred tax liability	(19,736)	(53,214)	(72,950)
Fair value of net assets	**36,733**	**272,498**	**309,231**

As discussed in Note 3, until 29 August 2008, the Company's equity participants had a right to request redemption of their interests in the Company in cash. The Company's obligation to redeem gave rise to a financial liability for the present value of the redemption amount even though the obligation was conditional on the equity participant exercising the right. The redemption amount was variable and depended on the Company's net assets determined in accordance with the Russian Accounting Regulations. As a practical expedient the Company measured the liability presented as 'Net assets attributable to the Company's participants' at the carrying values of net assets that were or could have been distributable to participants, determined in accordance with the Russian Accounting Regulations for the Company or determined in accordance with IFRS for the Group, whichever were higher. The changes in the net assets attributable to the Company's participants were the following:

	Paid-in capital	Other reserves	Cumulative currency translation reserve attributable to participants of the Company	Cumulative surplus of net assets attributable to participants of the Company
Balance at 1 January 2007	**218,080**	**-**	**(20,364)**	**1,188,547**
Entitlement of participants in respect of their interest in the Company	-	-	-	372,430
Other changes in net assets:				
- Change in cumulative currency translation reserve	-	-	(14,460)	-
- Acquisition of minority interest in the subsidiaries	-	-	-	187,418
- Allocation of net assets to minority holders of the Group's subsidiaries	-	-	-	(175,089)
Balance as at 31 December 2007	**218,080**	**-**	**(34,824)**	**1,573,306**
Entitlement of participants in respect of their interest in the Company	-	-	-	281,927
Other changes in net assets:				
- Change in cumulative currency translation reserve	-	-	4,462	-
- Additional contribution	373,100	(63,869)	-	-
- Acquisition of minority interest in the subsidiaries	-	-	-	54,913
- Allocation of net assets to minority holders of the Group's subsidiaries	-	-	-	(201,637)
- Effect of change in the Company's legal form (Note 1)	(591,180)	63,869	30,362	(1,708,509)
Balance as at 29 August 2008	**-**	**-**	**-**	**-**

26 Income Taxes

The Group income tax charges were as follows:

	31 December 2009	31 December 2008	31 December 2007
Current tax	270,277	329,148	324,654
Deferred tax	(58,512)	(94,542)	(147,964)
Effect of the change in the tax rate	-	(30,191)	-
Total income tax charge	**211,765**	**204,415**	**176,690**

Income before tax for financial reporting purposes is reconciled with the income tax expense as follows:

	31 December 2009	31 December 2008	31 December 2007
Income before tax	**294,915**	**533,976**	**667,872**
Estimated tax charge at statutory rate of 20% (2008: 24%; 2007: 24%)	(58,983)	(128,154)	(160,289)
Effect of different tax rates in other jurisdictions	(16,888)	2,047	(83)
Tax effect of items which are not deductible or assessable for taxation purposes:			
Non-deductible social expenditures	(15,614)	(36,030)	(11,987)
Non-deductible pension costs	(6,913)	(4,960)	(10,831)
Non-deductible depreciation	(117)	(3,882)	(2,695)
Non-deductible participation in associates	1,562	-	-
Effect of adjustment resulting from intra-group sales of subsidiaries	(31,603)	-	-
Impairment of goodwill	(23,400)	-	-
Other non-deductible expenses	(59,809)	(63,456)	9,195
Effect of the change in the tax rate	-	30,020	-
Income tax charge	**(211,765)**	**(204,415)**	**(176,690)**

Differences between IFRS and local tax legislation give rise to temporary differences between the carrying value of assets and liabilities for financial reporting purposes and for tax purposes. The tax effect of these temporary differences is recorded at the rate of 20% (Russian tax legislation), 25% (Ukrainian tax legislation) and 24% (Belorussia tax legislation), accordingly. With effect from 1 January 2009, the rate of profit tax payable by companies in the Russian changed from 24% to 20%, consequently, deferred tax assets/liabilities are measured at the rate of 20% as at 31 December 2009 and 2008 and 24% as at 31 December 2007.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Deferred tax assets:

	31 December 2009	31 December 2008	31 December 2007
Deferred tax assets to be recovered within 12 months	-	31,181	47,415
Deferred tax assets to be recovered after more than 12 months	53,989	9,819	10,296
Total deferred tax asset	**53,989**	**41,000**	**57,711**

Deferred tax liabilities:

	31 December 2009	31 December 2008	31 December 2007
Deferred tax liabilities to be settled within 12 months	-	-	-
Deferred tax liabilities to be settled after more than 12 months	(197,307)	(231,447)	(237,553)
Total deferred tax liabilities	**(197,307)**	**(231,447)**	**(237,553)**
Deferred tax liabilities (net)	**(143,318)**	**(190,447)**	**(179,842)**

26 Income Taxes (continued)

The gross movement on the deferred income tax account is as follows:

	1 January 2009	Credited/ (charged) to profit or loss	Acquisitions (Note 10)	Translation differences recognized in equity	31 December 2009
Deferred tax liabilities					
Property, plant and equipment	(315,869)	8,784	(18,061)	4,757	(320,389)
Intangible assets	(10,885)	4,257	(478)	427	(6,679)
Short-term trade receivables	(10,577)	10,577	-	-	-
Cash and cash equivalents	(2,451)	2,451	-	-	-
Long-term trade receivables	(86)	86	-	-	-
Finance lease liability	(541)	324	-	-	(217)
Short-term borrowings	(36)	15	-	-	(21)
Share of results of associates	-	(1,562)	-	-	(1,562)
Other taxes payable	-	(1,065)	-	-	(1,065)
	(340,445)	**23,867**	**(18,539)**	**5,184**	**(329,933)**
Deferred tax assets					
Inventory	6,229	27,113	(714)	(274)	32,354
Short-term trade receivables	-	20,634	2,509	280	23,423
Other current assets	1,100	3,227	(5)	-	4,322
Long-term trade receivables	-	-	-	-	-
Other non-current assets	649	(6)	-	-	643
Long-term liabilities	5,214	(5,214)	-	-	-
Long-term provisions	8,677	9,607	49	(8)	18,325
Losses of last year	19,953	(1,184)	-	-	18,769
Trade and other payables	77,452	(10,414)	-	(10)	67,028
Other taxes payable	5,278	(5,278)	-	-	-
Short-term provisions	25,446	(3,840)	255	(110)	21,751
	149,998	**34,645**	**2,094**	**(122)**	**186,615**
Total net deferred tax liability	**(190,447)**	**58,512**	**(16,445)**	**5,062**	**(143,318)**

	1 January 2008	Credited/ (charged) to profit or loss	Acquisitions (Note 10, 25)	Change in income tax rate re-cognized in profit and loss	31 December 2008
Deferred tax liabilities					
Property, plant and equipment	(273,926)	40,119	(135,789)	53,727	(315,869)
Intangible assets	(10,405)	7,151	(8,298)	667	(10,885)
Short-term trade receivables	-	(12,695)	881	1,237	(10,577)
Inventory	(24,226)	24,225	-	-	-
Cash and cash equivalents	-	(2,451)	-	-	(2,451)
Long-term trade receivables	-	(104)	-	18	(86)
Finance lease liability	-	330	-	(871)	(541)
Long-term borrowings	(9)	9	-	-	-
Short-term borrowings	(9)	(23)	-	(4)	(36)
	(308,575)	**56,562**	**(143,206)**	**54,774**	**(340,445)**
Deferred tax assets					
Inventory	-	8,505	1,818	(4,094)	6,229
Short-term trade receivables	9,786	(9,786)	-	-	-
Other current assets	9,409	(8,092)	-	(217)	1,100
Long-term trade receivables	2,108	(2,108)	-	-	-
Other non-current assets	215	690	-	(256)	649
Long-term liabilities	8,900	(3,686)	-	-	5,214
Long-term provisions	3,215	6,446	37	(1,021)	8,677
Losses of last year	-	23,943	-	(3,990)	19,953
Trade and other payables	77,372	4,561	4,781	(9,262)	77,452
Other taxes payable	155	6,023	-	(900)	5,278
Short-term provisions	17,573	11,484	1,232	(4,843)	25,446
	128,733	**37,980**	**7,868**	**(24,583)**	**149,998**
Total net deferred tax liability	**(179,842)**	**94,542**	**(135,338)**	**30,191**	**(190,447)**

26 Income Taxes (continued)

	1 January 2007	Credited/ (charged) to profit or loss	Acquisitions (Note 10)	31 December 2007
Deferred tax liabilities				
Property, plant and equipment	(246,186)	86,960	(114,700)	(273,926)
Intangible assets	(2,249)	(7,380)	(776)	(10,405)
Inventory	(42,905)	28,967	(10,288)	(24,226)
Other current assets	(3,660)	3,660	-	-
Long-term borrowings	(1,141)	1,132	-	(9)
Short-term borrowings	-	(9)	-	(9)
	(296,141)	**113,330**	**(125,764)**	**(308,575)**
Deferred tax assets				
Short-term trade receivables	27,493	(20,125)	2,418	9,786
Other current assets	2,209	7,200	-	9,409
Long-term trade receivables	-	1,919	189	2,108
Other non-current assets	-	134	81	215
Long-term liabilities	-	(1,483)	10,383	8,900
Long-term provisions	-	3,215	-	3,215
Short-term borrowings	702	(702)	-	-
Trade and other payables	5,833	27,638	43,901	77,372
Other taxes payable	-	155	-	155
Short-term provisions	-	16,683	890	17,573
	36,237	**34,634**	**57,862**	**128,733**
Total net deferred tax liability	**(259,904)**	**147,964**	**(67,902)**	**(179,842)**

The Group has not recognised a deferred tax liability in respect of temporary differences of RR 1,036,085 thousand (2008: RR 1,368,727; 2007 RR 1,477,677 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.

According to the Tax Code of the Russian Federation tax losses incurred, and current income tax overpaid, by a Group company may not be offset against current tax liabilities and taxable income of any other Group companies. Therefore, deferred tax assets and deferred tax liabilities of the Group companies may not be offset.

27 Revenues

	2009	2008	2007
Revenue from construction contracts	4,182,873	4,825,847	3,150,626
Sales of pumps and spare parts	5,947,107	4,786,136	4,499,742
Sales of oilfield equipment	3,391,206	3,312,964	2,747,003
Sales of repair services for oil-field equipment	704,600	790,553	753,446
Sales of engines	151,327	280,726	413,075
Sales of products, work and services of auxiliary units	43,763	87,839	182,889
Sales of special equipment	-	(597,750)*	988,951
Sales of other services and goods	351,393	559,930	663,624
	14,772,269	**14,046,245**	**13,399,356**

* The reversal of RR 597,750 thousand represent the delivery of hydraulic equipment made to a large foreign customer in 2007 and subsequently returned by the customer in 2008.

28 Cost of Sales

	2009	2008	2007
Supplies and raw materials	6,186,920	5,533,731	5,378,097
Labour costs	1,798,137	1,974,701	1,567,194
Cost of goods sold	1,721,021	1,365,668	2,605,599
Construction and installation works of subcontractors	430,258	971,905	470,692
Depreciation and amortization	259,435	256,542	210,677
Utilities	168,019	142,926	122,484
Inventory impairment provision	95,949	56,993	48,383
Warranty provision	18,150	12,455	11,817
Impairment of property, plant and equipment and intangible assets	13,848	-	-
Change in work in progress and finished goods	(44,516)	(268,542)	(250,356)
Other expenses	516,981	726,310	642,414
	11,164,202	**10,772,689**	**10,807,001**

29 Distribution and Transportation Expenses

	2009	2008	2007
Labour costs	196,185	164,457	122,082
Transport expenses	124,875	142,517	115,529
Packaging expenses	24,832	37,660	11,292
Entertaining costs and business trip expenses	22,341	26,456	23,279
Insurance	14,831	18,594	23,759
Customs duties	13,933	9,930	3,491
Advertising	13,344	18,221	9,761
Depreciation and amortization	11,251	37,452	33,981
Lease	9,469	16,066	17,905
Capital assets repair and maintenance	3,855	3,953	2,442
Agency services	3,542	2,049	-
Products certification	2,652	2,239	1,914
Other expenses	41,466	37,899	34,190
	482,576	**517,493**	**399,625**

30 General and Administrative Expenses

	2009	2008	2007
Labour costs	1,089,996	964,569	702,737
Audit and consultancy services	102,962	119,324	49,664
Taxes and duties	74,142	79,607	79,873
Depreciation and amortization	72,203	50,044	30,753
Provision for impairment of accounts receivable	69,559	32,694	69,373
Stationary and office maintenance	45,978	70,973	53,189
Bank services	38,631	35,207	19,261
Entertaining costs and business trip expenses	33,540	47,096	26,011
Property, plant and equipment repair and maintenance	32,411	29,293	13,486
Security	31,285	26,130	16,248
Provision for VAT receivable	29,918	826	-
Telecommunications services	25,877	26,813	15,084
Insurance	18,886	22,662	15,333
Defined benefits scheme expenses	17,672	24,801	45,130
Rent	16,614	24,788	2,358
Provisions for legal claims	13,655	18,311	1,266
Training and recruitment	9,409	10,178	9,524
Other expenses	103,681	70,067	78,881
	1,826,419	**1,653,383**	**1,228,171**

31 Other Operating Expenses, Net

	2009	2008	2007
Charity, social expenditures	56,109	73,245	52,726
Foreign exchange loss, (net)	19,413	14,388	(4,422)
Fines and late payment interest under contracts	8,047	9,956	2,735
Gain on sales and other disposal of property, plant and equipment and intangible assets	2,305	30,382	27,273
Depreciation of social assets	1,099	3,790	1,761
(Income)/expenses on transactions with securities	283	(5,466)	1,839
(Gain)/loss on disposal of subsidiaries	-	(6,208)	2,592
Investments impairment provision reverse	-	(5,195)	(1,352)
Dividend income	-	-	(9)
Loss on sales of inventories	(3,442)	20,833	2,702
Other expenses	13,822	54,462	14,927
	97,636	**190,187**	**100,772**

32 Finance Income

	2009	2008	2007
Interest income	54,408	26,450	35,053
Foreign exchange income (net)	4,016	-	-
	58,424	**26,450**	**35,053**

33 Finance Costs

	2009	2008	2007
Interest expenses	857,895	400,911	214,693
Foreign exchange loss (net)	-	74,348	24,398
Finance lease expenses	7,245	13,079	9,974
Other expenses	-	31	32
	865,140	**488,369**	**249,097**

34 Balances and Transactions with Related Parties

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

Related parties may enter into transactions which unrelated parties may not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The table below contains the disclosure by group of related parties with which the Company entered into significant transactions or has significant balances outstanding. Other category comprises ultimate shareholders of participants and other parties over which the Group exercised significant influence:

				31 December 2009
Balances with related parties	**Note**	**Participant**	**Associates**	**Other**
Loans issued	14	95,074	-	-
Trade and other accounts receivable	14	-	6,637	-
Accounts payable	23	-	12,236	36,913

				31 December 2008
Balances with related parties	**Note**	**Participant**	**Associates**	**Other**
Loans issued	14	75,160	-	-
Trade and other accounts receivable	14	1,359	368	5,064
Accounts payable	23	-	2,768	3,031

				31 December 2007
Balances with related parties	**Note**	**Participant**	**Associates**	**Other**
Loans issued	14	-	-	30,220
Trade and other accounts receivable	14	-	5,672	10,502
Accounts payable	23	-	4,379	34,407

34 Balances and Transactions with Related Parties (continued)

No provision was made for accounts receivable from related parties.

Neither party issued guaranties to secure accounts receivable or payable.

Income/expenses on transactions with related parties	Participant	Associates	Year ended 31 December 2009 Other
Sales of goods and finished products	-	2,643	33,145
Sales of services	-	13	158
Purchase of services	-	(40,309)	-
Purchase of goods	-	(34,200)	-
Purchase of raw and materials	-	(27,181)	-
Interest income	11,620	-	-
Lease	-	(25)	(128)

Income/expenses on transactions with related parties	Participant	Associates	Year ended 31 December 2008 Other
Sales of goods and finished products	-	1,947	431
Sales of services	-	3,943	-
Purchase of services	-	(4,609)	(526)
Purchase of goods	-	(112,175)	(48,670)
Interest income	8,916	-	-
Lease	-	-	(40)

Income/expenses on transactions with related parties	Participant	Associates	Year ended 31 December 2007 Other
Sales of goods and finished products	-	1,186	1,189
Sales of services	-	-	1,802
Purchase of services	-	(34,036)	(662)
Purchase of goods	-	(9,756)	(77,162)
Interest income	-	-	541
Lease	(9,801)	-	(20)

In 2009, the Group extended maturity dates for previously issued short term loans and additionally issued short term loans to related parties for a total of RR 1,100 with a weighted average interest rate of 14% (2008: RR 75,160; 2007: RR 24,500).

In 2009, preference dividends of RR 150,020 were accrued and paid by the Company's subsidiaries to the minority holders who are the ultimate shareholders of the Group (2008: RR 214,098; 2007: RR 200,076).

Key management compensation

Key management compensation amounted to RR 134,506 for the year ended 31 December 2009 (2008: RR 92,357; 2007: RR 66,245) and includes short-term benefits such as salaries and bonuses paid to management as set forth in labour contracts concluded annually.

35 Contingencies and Commitments

(i) Legal proceeding

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been recorded or disclosed in these consolidated financial statements.

(ii) Tax legislation

Russian and Ukrainian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group companies may be challenged by the state authorities.

35 Contingencies and Commitments (continued)

(ii) Tax legislation (continued)

The Russian and Ukrainian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court of the Russian Federation issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny.

As a result, significant additional taxes, penalties and interest may be assessed. 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 provides the possibility for tax authorities to make transfer pricing adjustments and 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 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. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

In addition to the above transfer pricing matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks as of 31 December 2009 of RR 1,975 (2008: RR 25,260; 2007: no such obligations). These exposures primarily relate to bonuses to employees and return of goods.

(iii) Environmental matters

The enforcement of environmental regulation in Russian Federation and Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(iv) Insurance policies

The Russian and Ukrainian insurance services market is evolving. Part of the Group's production facilities are adequately covered by insurance. The Group has not adequately insured business interruption, third party liability for damage to property and environment resulting from accidents involving the Group's property or connected with its operations. Until the Group ensures adequate insurance coverage there is a risk that losses incurred or property damage inflicted by the Group may have a significant effect on the Group's financial position and operations.

35 Contingencies and Commitments (continued)

(v) Contractual commitments

As at 31 December 2009 the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 33,168 (2008: RR 54,174; 2007: RR 85,162).

By 30 August 2010 the Group is due to pledge non-current assets with a pledge value RR 1,490,000, 43% of Tomskgazstroy OJSC shares, 49% of Trest Sibkomplektmontaghnaladka OJSC shares, 95.38% of EPF SIBNA Inc. JSC shares, 100% of Nizhnevartovskremservis CJSC shares, 40% of Dimitrovgradkhimmash OJSC shares as a security for long-term borrowings. Up to the date of these financial statements, the Group has not concluded pledge agreements except for the pledge of 30% of Dimitrovgradkhimmash OJSC shares (Note 38).

The Group holds short term cancellable and non cancellable operating leases. The future commitments of the non cancellable leases are not material and therefore management do not consider that disclosure is required.

(vi) Compliance with covenants

Under the terms of its loan agreements the Group is required to comply with a number of covenants, including maintenance of the certain level of net assets and certain other requirements.

During the year and as at 31 December 2009 the Group was not in compliance with certain covenants of the bank loans, including covenants which require the Group to maintain its net assets at certain level, and certain other requirements. Due to the breach of these covenants, the banks are contractually entitled to request early repayment of the outstanding amounts of RR 650,000 (2008: RR 362,412; 2007:0), including bank loans of RR 650,000 (2008: RR 362,412; 2007: 0) with original maturities of less than twelve months after the statement of financial position date.

None of the bank loans where the breach of loan covenants existed at 31 December 2009 has been called by the lender either at 31 December 2009 or during the subsequent period through to the date of these consolidated financial statements.

Subsequent to the year end, the maturity of loan agreement in the amount of RR 214,150 was extended till 31 December 2010. The Group's management believes that measures undertaken and preliminary agreements achieved will allow the Group to avoid further breaches of covenants and ensure future compliance with the terms of the loan agreements.

36 Segment Information

The Group early adopted *IFRS 8, Operating Segments,* beginning from 2007. Management has determined the operating segments based on the management reports, which are primarily derived from unaudited IFRS financial statements. Before 2009, management determined the operating segments based on the management reports, which were primarily derived from statutory records and regularly reconciled to IFRS financial statements. Starting from 2009 no management reports derived from statutory records are available. The management reports are reviewed by the chief operating decision-maker that is used to make strategic decisions. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the General Director of the Company. The following criteria have been used for determining the operating segments and assigning the Group subsidiaries to particular segment:

- Business activities of companies;
- Organizational structure of companies;
- Nature of production processes;
- Manufactured and sold products;
- Specific characteristics of buyers/customers.

Management considers the business from both a geographical and product perspective.

36 Segment Information (continued)

The first operating segment "Industrial pumps" includes:

	2009	2008	2007
1	Livhydromash OJSC	Livhydromash OJSC	Livhydromash OJSC
2	LPKC LLC	LPKC LLC	LPKC LLC
3	Electrodvigatel OJSC	Electrodvigatel OJSC	Electrodvigatel OJSC
4	Livnynasos OJSC	Livnynasos OJSC	Livnynasos OJSC
5	HYDROMASHINPROM CJSC	HYDROMASHINPROM CJSC	HYDROMASHINPROM CJSC
6	Nasosenergomash OJSC	Nasosenergomash OJSC	Nasosenergomash OJSC
7	Trade house HYDROMASHSERVICE Ukraine LLC (formerly TD Sumskie nasosy LLC)	Trade house HYDROMASHSERVICE Ukraine LLC (formerly TD Sumskie nasosy LLC)	TD Sumskie nasosy LLC
8	SPA Gydromash CJSC	SPA Gydromash CJSC	
9	Hydromash-Industria LLC	Hydromash-Industria LLC	
10	Institute Rostovskiy Vodokanalproekt OJSC	Institute Rostovskiy Vodokanalproekt OJSC	
11	Promburvod Plant OJSC	Promburvod Plant OJSC	
12	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC	
13	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC

The second operating segment "Oil and gas equipment" includes:

	2009	2008	2007
1	Neftemash OJSC	Neftemash OJSC	Neftemash OJSC
2	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
3	EPF SIBNA Inc. JSC	HYDROMASHINPROM CJSC	
4	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
5	SPA Gydromash CJSC		

The third operating segment "Oil and gas construction" includes:

	2009	2008	2007
1	Trest Sibkomplektmontaghnaladka OJSC	Trest Sibkomplektmontaghnaladka OJSC	Trest Sibkomplektmontaghnaladka OJSC
2	Tomskgazstroy OJSC	Tomskgazstroy OJSC	Tomskgazstroy OJSC Otdelochnik Tomskgazstroy LLC

The table below contains other companies that did not fall under the above listed operating segments and included in All other:

	2009	2008	2007
1	Hydraulic Machines and Systems Management LLC	Hydraulic Machines and Systems Management LLC	Hydraulic Machines and Systems Management LLC
2	GMS Group OJSC (formerly Hydraulic Machines and Systems Group LLC)	GMS Group OJSC (formerly Hydraulic Machines and Systems Group LLC)	Hydraulic Machines and Systems Group LLC
3	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
4	Sibservice LLC (no business)	United Industrial Group LLC (no business)	United Industrial Group LLC (no business)
5	Hydromashkomplekt LLC	Sibservice LLC (no business)	Sibservis LLC (no business)
6	Business Centre Hydromash LLC	Hydromashkomplekt LLC	
7	HMS-Promburvod CJSC	Business Centre Hydromash LLC	
8		HMS-Promburvod CJSC	

36 Segment Information (continued)

List of associates with the breakdown by operating segments:

The first operating segment "Industrial pumps" includes:

	2009	2008	2007
1	VNIIAEN OJSC	VNIIAEN OJSC	VNIIAEN OJSC
2			Promburvod Plant OJSC
3		Vodokanalproektirovanie LLC	

The second operating segment "Oil and Gas equipment" includes:

	2009	2008	2007
1	Dimitrovgradkhimmash OJSC	Dimitrovgradkhimmash OJSC	Dimitrovgradkhimmash OJSC
2		EPF SIBNA Inc. JSC	

Geographically, management considers the performance of their subsidiaries in Russia, Ukraine, Belorussia and location of the customers where the Group performs its trade and commercial activities.

The reportable operating segments derive their revenue primarily from the manufacture and sale of industrial pumps, oil and gas equipment, oil and gas construction and the other products and services.

Sales between segments are carried out at the arm's length. The revenue from external parties reported to management is measured in a manner consistent with that in statement of comprehensive income.

Starting from 2009 management assesses the performance of operating segments based on a measure of adjusted EBITDA, which is derived from the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Before 2009 management assessed the performance of operating segments based on a measure of adjusted EBITDA, which is derived from the statutory accounting records. In these consolidated financial statements comparatives for the year ended 31 December 2008 and 2007 are not restated, and consequently, are not comparable with the amounts for the year ended 31 December 2009.

For this purpose EBITDA is defined as operating profit/loss adjusted for other income/expenses, depreciation and amortization, inventory impairment provisions, provision for impairment of accounts receivable, unused vacation allowance, excess of fair value of net assets acquired over the cost of acquisition.

This measurement basis excludes the effects on non-recurring expenditure from the operating segments, such as restructuring costs, legal expenses and goodwill impairments, when the impairment is a result of an isolated, non-recurring event.

The segment information provided to the CODM for the reportable segments is reconciled to corresponding amounts reported in the Group's consolidated financial statements prepared in accordance with IFRS.

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2009 is as follows:

Disclosures by segments	**Industrial pumps**	**Oil and gas equipment**	**Oil and gas construction**	**All other**	**Total**
Revenue External, Management Report	6,143,653	4,180,065	4,105,031	245,342	**14,674,091**
Revenue Internal, Management Report	82,774	59,974	-	512,939	**655,687**
EBITDA	1,046,542	768,003	(1,409)	1,681	**1,814,817**
Depreciation and amortization	(114,188)	(75,668)	(119,784)	(25,868)	**(335,508)**
Finance income	104,101	154,345	452	7,274	**266,172**
Finance cost	(519,333)	(357,937)	(150,460)	(52,734)	**(1,080,464)**
Income tax charge	(151,014)	(84,115)	27,434	(3,320)	**(211,015)**
Aggregate share in net profit of associates recorded in consolidated accounts based on equity method	(6,711)	39,385	-	-	**32,674**

The Group has decided to early adopt improvements to IFRS 8 issued in April 2009, which allows the Group not to disclose information about segment assets and liabilities in these consolidated financial statements, since such information is not regularly provided to the CODM (Note 4).

36 Segment Information (continued)

Reconciliation of financial information analysed by CODM to corresponding information presented in consolidated FS prepared under IFRS is provided as follows:

	Year ended 31 December 2009
Total revenues for reportable segments	15,329,778
Less intersegment revenue	(655,687)
Adjustments related to construction contracts revenue	95,560
Other adjustments	2,618
Total Entity's revenue	14,772,269
EBITDA, management report	1,814,817
Adjustments related to revenue from construction contracts	95,560
Other adjustments	(19,969)
EBITDA, adjusted	1,890,408
Depreciation and amortization	(343,987)
Non-monetary items*	(234,217)
Other income and expense	(227,766)
Operating Profit	1,084,438
Finance Income	58,424
Finance Cost	(865,140)
Share of results associates	17,193
Profit before Income Tax, IFRS	294,915

*Non-monetary items consists of provisions: Inventory impairment provision, provision for impairment of accounts receivable, unused vacation allowance, etc.

	Year ended 31 December 2009
Depreciation and amortization, management report	(335,508)
Adjustments on additional depreciation	(8,481)
Depreciation and amortization, IFRS	(343,987)
Finance income, management report	266,172
Intercompany eliminations	(215,575)
Adjustments on reclassifications of foreign exchange differences	7,827
Finance Income, IFRS	58,424

	Year ended 31 December 2009
Finance cost, management report	(1,080,464)
Intercompany eliminations	215,575
Other adjustments	(251)
Finance Expenses, IFRS	(865,140)
Income tax charge, management report	(211,015)
Other adjustments	(750)
Income tax charge, IFRS	(211,765)
Aggregate share in net profit of associates recorded in consolidated accounts based on equity method, management report	32,674
Adjustments related to revaluation of net assets of associates	(15,481)
Aggregate share in net profit of associates recorded in consolidated accounts based on equity method, IFRS	17,193

36 Segment Information (continued)

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2008 is as follows:

Disclosures by segments	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other	Total
Revenue, RSA	7,218,201	4,510,034	5,450,769	655,718	**17,834,722**
EBITDA	822,030	528,762	254,794	68,463	**1,643,861***
Depreciation and amortization, RSA	(63,227)	(44,541)	(82,360)	(5,185)	**(195,313)**
Finance income, RSA	47,516	18,464	386	4,638	**71,004**
Finance cost, RSA	(292,111)	(79,905)	(48,366)	(25,671)	**(446,053)**
Income tax charge, IFRS	(106,866)	(90,892)	(46,994)	28,416	**(204,415)****
Aggregate share in net profit of associates recorded in consolidated accounts based on equity method, IFRS	21,620	27,824	-	-	**49,444**

* The sum of EBITDA by segment is less than Total by RR 30,188 due to elimination of transaction between operating segments.

** The sum of Income Tax charge by segment is less than Total by RR 11,921 due to elimination of transaction between operating segments.

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2007 is as follows:

Disclosures by segments	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other	Total
Revenue, RSA	8,040,910	3,817,413	3,555,879	310,297	**15,724,499**
EBITDA	685,861	501,103	248,738	(10,511)	**1,423,168***
Depreciation and amortization, RSA	(41,611)	(37,291)	(39,190)	(2,785)	**(120,877)**
Finance income, RSA	4,903	287	2,149	265	**7,604**
Finance cost, RSA	(168,138)	(37,066)	(35,564)	(22)	**(240,790)**
Income tax charge, IFRS	(85,172)	(76,680)	(43,692)	28,854	**(176,690)**
Aggregate share in net profit of associates recorded in consolidated accounts based on equity method, IFRS	9,154	8,975	-	-	**18,129**

* The sum of EBITDA by segment is less than Total by RR 2,023 due to elimination of transaction between operating segments.

Reconciliation of financial information analysed by CODM to corresponding information presented in consolidated FS prepared under IFRS is provided as follows:

Description	Year ended 31 December 2008	Year ended 31 December 2007
EBITDA	**1,643,861**	**1,423,168**
Depreciation and amortization	(347,828)	(277,172)
Non-monetary items*	(193,353)	(181,437)
Excess of fair value of net assets acquired over the cost of acquisition	33,958	-
Other income and expense	(190,187)	(100,772)
Operating Profit	**946,451**	**863,787**
Finance Income	26,450	35,053
Finance Cost	(488,369)	(249,097)
Share of results associates	49,444	18,129
Profit/(loss) before Income Tax, IFRS	**533,976**	**667,872**

* Non-monetary items consists of provisions: Inventory impairment provision, provision for impairment of accounts receivable, unused vacation allowance, etc.

36 Segment Information (continued)

Description	Year ended 31 December 2008	Year ended 31 December 2007
Revenue, RSA	**17,834,722**	**15,724,499**
Construction contracts	329,443	51,676
Reclassification to Other Income	(532,835)	(35,248)
Return of goods	(597,750)	-
Other adjustments	(100,967)	(1,866)
Elimination of intercompany transactions	(2,885,541)	(2,339,705)
Unrealised profit	(827)	-
Transactions between operating segments	-	-
Revenue, IFRS	**14,046,245**	**13,399,356**
Depreciation and amortization, RSA	(195,313)	(120,877)
Uplift due to revaluation of property plant and equipment for IFRS	(152,515)	(156,295)
Depreciation and amortization, IFRS	(347,828)	(277,172)
Finance income, RSA	**71,154**	**7,604**
Discounting of long-term liabilities	3,849	26,623
Other income	560	826
Intersegments transactions	(49,113)	-
Finance income, IFRS	**26,450**	**35,053**
Finance cost, RSA	**(446,053)**	**(240,790)**
Finance lease expenses	(13,079)	(4,735)
Intersegments transactions	49,113	20,995
Other expense	(4,002)	(169)
Exchange gains and losses	(74,348)	(24,398)
Finance cost, IFRS	**(488,369)**	**(249,097)**

Revenue by major customers	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other	Consolidated revenue for the year ended 31 December 2009
Revenues by counteragents without dividing by countries, Including	6,308,064	4,166,176	4,188,738	109,291	14,772,269
RN-Purneftegaz	27,964	188,767	1,832,729	-	2,049,460
Other (each< 10% of total revenue)	6,280,100	3,977,409	2,356,009	109,291	12,722,809

In 2008 and 2007 there were no any customers with individual revenue more than 10% of each of total revenue.

The Group subsidiaries carry out trade and commercial activities in the CIS states, European and Asian countries, which management assesses by location (the country) of the external customers of products and services based on accounting records used to prepare IFRS financial statements:

Disclosures by segments	Consolidated revenue for the year ended 31 December 2009	Non-current Assets as at 31 December 2009	Consolidated revenue for the year ended 31 December 2008	Non-current Assets as at 31 December 2008	Consolidated revenue for the year ended 31 December 2007	Non-current Assets as at 31 December 2007
Revenues by countries of buyers of products and services	14,772,269	4,308,908	14,046,245	4,288,494	13,399,356	3,123,248
Including	-					
Russia	13,486,474	3,840,561	13,601,096	3,094,594	11,501,967	2,938,632
Belorussia	315,210	115,088	163,270	167,537	68,147	-
Kazakhstan	310,967	-	386,574	-	242,469	-
Iraq	267,190	-	(597,750)	-	1,023,557	-
Ukraine	99,726	353,259	202,164	1,026,363	244,259	184,616
Other	292,702	-	290,891	-	318,957	-

The information about non-current assets are submitted to persons responsible on a regular basis to take management decisions by operating segments.

37 Financial Risk Management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the Group's finance department. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and EURO. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and investments in foreign operations.

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December 2009 2008 and 2007, respectively:

	At 31 December 2009			At 31 December 2008			At 31 December 2007		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
USD	128,163	(308,124)	(179,961)	31,565	(158,715)	(127,150)	89,114	(100,272)	(11,158)
Euros	22,620	(2,331)	20,289	47,491	(14,748)	32,743	991,946	(945,006)	46,940
Total	**150,783**	**(310,455)**	**(159,672)**	**79,056**	**(173,463)**	**(94,407)**	**1,081,060**	**(1,045,278)**	**35,782**

The following exchange rates were applied to convert foreign currencies into Russian Roubles:

	31 December 2009	31 December 2008	31 December 2007
USD	30.2442	29.3804	24.5462
EURO	43.3883	41.4411	35.9332

At 31 December 2009, if the Russian Rouble (RR) had strengthened/weakened by 20% against the US dollar with all other variables held constant, post-tax profit for the year would have been RR 28,794 higher/lower (2008: strengthened by 33%, RR 31,889 higher/lower; 2007: strengthened by 15%, RR 1,272 higher/lower), mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and borrowings.

At 31 December 2009, if the RR had strengthened/weakened by 20% against the EURO with all other variables held constant, post-tax profit for the year would have been RR 3,246 higher/lower (2008: strengthened by 27%, RR 6,719 higher/lower; 2007: strengthened by 15%, RR 5,351 higher/lower), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated trade receivables and borrowings.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. However, management monitors net monetary position of the Group's financial assets and liabilities denominated in foreign currency on a regular basis.

(ii) Price risk

The Group is not exposed to equity securities price risk because it does not hold a material portfolio of quoted equity securities. The Group is not exposed to commodity price risk because both its finished products and purchased raw materials are not traded on a public market.

(iii) Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. Monitoring of current market interest rates and analysis of the Group's interest-bearing position is performed by the Group's finance department as a part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

37 Financial Risk Management (continued)

Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

The sales revenue and operating cash flow of the Group mainly do not depend on the change of market interest rates. The Group is exposed to the interest rate risk due to fluctuations of interest rates on short-term borrowings (Note 16). The Group does not have significant interest-bearing assets.

The fair value of the Group's bonds is disclosed in Note 16 and is estimated based on the market quotations. The fair value of the rest of financial instruments is approximately equal to their carrying value.

At 31 December 2009, if interest rates at that date had been 10% basis points lower (2008, 2007: 10% basis points lower) with all other variables held constant, profit for the year would have been RR 1,243 (2008: RR 1,058; 2007: RR 980) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 10% basis points higher (2008, 2007: 10% basis points higher), with all other variables held constant, profit would have been RR 1,055 (2008: RR 1,058; 2007: RR 980) lower, mainly as a result of higher interest expense on variable interest liabilities.

All other financial instruments are non-interest bearing.

(b) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets which consist principally of trade receivables, cash and bank deposits. The maximum exposure to credit risk of the financial assets is limited to their carrying amounts.

	2009	2008	2007
Trade and other receivables (Note 14, 15)			
- Trade receivables	1,400,707	1,415,141	2,315,454
- Other financial receivables	260,475	430,019	232,852
Cash and cash equivalents (Note 12)			
- Bank balances (including restricted cash)	757,847	669,022	375,701
- Cash on hand	719	1,080	2,392
Total on-balance sheet exposure	**2,419,748**	**2,515,262**	**2,926,399**
Total maximum exposure to credit risk	**2,419,748**	**2,515,262**	**2,926,399**

Cash and short-term deposits. Cash, cash equivalents and short-term deposits are placed in major multinational and Russian banks with independent credit ratings. The banks are assessed to ensure exposure to credit risk is limited to an acceptable level. All the bank balances and term deposits are neither past due nor impaired.

37 Financial Risk Management (continued)

Financial risk factors (continued)

(b) Credit risk (continued)

Analysis by credit quality of bank balances and short-term deposits is as follows:

Agency	Rating	31 December 2009	31 December 2008	31 December 2007
Fitch***	B+	211,486	68,518	212,827
Moody's*	Prime-2	319,695	431,341	-
S&P's**	BBB-	13,682	64,190	-
Moody's*	Baa2	-	-	26,256
IC Rating****	B2	-	-	14,907
Moody's*	Ba1	68,908	46,849	12,919
S&P's**	BBB+	-	24,882	-
Moody's*	Not Prime	28,536	15,057	-
Moody's*	Baa2	-	-	10,980
S&P's**	B-	1,018	5,499	-
IC Rating****	B1	-	-	6,321
Fitch***	BB-	-	-	2,935
Moody's*	B1	-	-	2,546
S&P's**	B	-	-	74,558
IC Rating****	B1	-	-	1,232
Moody's*	Baa2	-	-	938
S&P's**	B+	763	-	270
S&P's**	BBB	-	-	82
Moody's*	Baa2	-	-	69
National rating Agency	A	14,325	-	-
RUS rating	BB	60,300	-	-
Moody's*	E+	16,839	-	-
Other	-	23,014	13,766	11,253
Total		**758,566**	**670,102**	**378,093**

* International rating agency Moody's Investor Service
** International rating agency Standard & Poor's
*** International rating agency Fitch
****Information Center Rating

Trade and other financial receivables. The Group assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. The credit quality of each new customer is analyzed before the Group provides it with the terms of goods supply and payments. The Group commercial department reviews ageing analysis of outstanding trade receivables and follows up on past due balances. The credit quality of the Group's significant customers is monitored on an ongoing basis. The majority of the Group's customers are large buyers of industrial equipment and oil and gas companies, which have similar credit risk profile to the Group. The Group does not analyse its customers by classes for credit risk management purposes.

37 Financial Risk Management (continued)

Financial risk factors (continued)

(b) Credit risk (continued)

As of the reporting date analysis of credit quality of trade and other accounts receivable was as follows:

	2009		2008	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Total not overdue and not impaired, including:	**1,044,976**	**258,736**	**1,249,669**	**424,585**
Large enterprises	706,848	71,241	820,454	350,070
Middle and small size companies	335,752	134,757	423,978	11,186
Government organization and agencies	2,297	301	2,251	78
Scientific research institutes	-	-	133	216
Individuals	79	15,585	1,680	10,368
Banks*	-	35,939	-	38,500
Other	-	913	1,173	14,167
Total past due but not impaired, including:	**355,731**	**1,739**	**165,472**	**5,434**
- less than 60 days overdue	179,004	50	123,891	285
- 61 to 180 days overdue	112,187	745	38,538	-
- 181 to 365 days overdue	42,547	917	3,039	5,149
- over 365 days overdue	21,993	27	4	-
Individually impaired (gross), including:	**111,184**	**118,749**	**126,729**	**7,822**
Current to be impaired	32,362	11,936	9,046	2,866
- less than 60 days overdue	2,715	-	48,516	159
- 61 to 180 days overdue	7,170	3,283	17,280	1206
- 181 to 365 days overdue	12,856	6,010	11,805	2,609
- over 365 days overdue	56,081	97,520	40,082	982
Less impairment provision	**(111,184)**	**(118,749)**	**(126,729)**	**(7,822)**
Total	**1,400,707**	**260,475**	**1,415,141**	**430,019**

* Analysis of credit ratings of banks is provided below.

It is the Group's policy to consider a provision for impairment of the accounts receivables in 60 days after the debt is incurred. The overdue receivables are regularly assessed for impairment and the Group sets up provisions for individually impaired receivables, while the other are classified as past due but not impaired.

	2007	
	Trade receivables	Other financial receivables
Total current and not impaired, including:	**2,201,620**	**232,852**
Large enterprises	497,059	137,107
Middle and small size companies	622,081	63,856
Government organization and agencies	1,032,626	-
Scientific research institutes	16,595	-
Individuals	-	16,889
Banks*	-	15,000
Other	33,259	-
Total past due but not impaired, including:	**113,834**	-
- less than 60 days overdue	79,446	-
- 61 to 180 days overdue	11,441	-
- 181 to 365 days overdue	22,161	-
- over 365 days overdue	786	-
Individually impaired (gross), including:	**51,387**	**12,242**
Current to be impaired	39,310	10,739
- less than 60 days overdue	424	164
- 61 to 180 days overdue	2,403	505
- 181 to 365 days overdue	4,945	360
- over 365 days overdue	4,305	474
Less impairment provision	**(51,387)**	**(12,242)**
Total	**2,315,454**	**232,852**

* Analysis of credit ratings of banks is provided below.

37 Financial Risk Management (continued)

Financial risk factors (continued)

(b) Credit risk (continued)

Analysis by credit quality of short-term and long-term deposits placed in banks is as follows:

Agency	Rating	31 December 2009	31 December 2008	31 December 2007
Moody's*	Ba1	11,421	-	-
S&P's**	B-	10,256	-	-
National rating Agency	A	14,262	-	15,000
Moody's*	E	-	38,500	-
Total		**35,939**	**38,500**	**15,000**

The amount exposed to credit risk relating to financial receivables (the carrying amount of trade and other accounts receivable less doubtful debt provision) as of 31 December 2009 is RR 1,661,182 (2008: RR 1,845,160; 2007: RR 2,548,306).

Credit risks concentration

Date	Numbers of counterparties with aggregated receivables balances above RR 50,000 thousand	The total aggregate amount of these balances	% of the gross amount of trade and other receivables
At 31 December 2009	9	975,746	61%
At 31 December 2008	9	780,426	47%
At 31 December 2007	11	1,696,502	68%

The Group's bank deposits are held only with 8 banks (2008: 6 banks, 2007: 2) thus exposing the Group to a concentration of credit risk.

Cash is collected according to the contractual terms during the reporting and subsequent periods, and management does not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's finance department is responsible for management of liquidity risk, including funding, settlements, related processes and policies. The operational, capital, tax and other requirements and obligations of the Group are considered in the management of liquidity risk. Management utilises cash flow forecasts and other financial information to manage liquidity risk.

The table below gives information on the contractual repayment dates of the Group's financial liabilities as of the reporting date with regard to expected cash flows:

		Cash flows under the contract			
Statement of financial position item	**Carrying amount as at 31 December 2009**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Bank loans*	5,242,540	2,540,386	1,658,602	2,464,950	-
Other loans*	33,000	33,000	-	-	-
Finance lease liabilities*	21,573	16,512	9,216	9	-
Trade accounts payable	1,264,490	1,264,490	-	-	-
Other payables	58,110	58,110	-	-	-

		Cash flows under the contract			
Statement of financial position item	**Carrying amount as at 31 December 2008**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Bank loans*	4,065,613	4,423,743	789	-	-
Other loans*	17,096	17,096	-	-	-
Finance lease liabilities*	41,543	27,022	16,707	9,225	-
Trade accounts payable	947,258	947,258	-	-	-
Other payables	125,441	125,441	-	-	-

37 Financial Risk Management (continued)

Financial risk factors (continued)

(c) Liquidity risk (continued)

Statement of financial position item	Carrying amount as at 31 December 2007	Cash flows under the contract			
		Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank loans*	2,951,483	2,938,413	405,374	-	-
Finance lease liabilities*	64,204	35,832	26,857	25,905	-
Trade accounts payable	2,137,632	2,137,632	-	-	-
Other payables	90,383	90,383	-	-	-

* As the amounts included in the table are the contractual undiscounted cash flows, including future interest, these amounts will not reconcile to the amounts disclosed on the statement of financial position for borrowings and trade and other payables.

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 consolidated statement of financial position date.

The Group is extensively expanding its business by raising external finance. The Group uses credit facilities in major multinational and Russian banks. Availability of open credit lines together with long-term borrowings gives the Group the possibility to balance credit portfolio and decrease risk of adverse fluctuations of financial markets.

The table below analyses credit lines of the Group as at 31 December 2009 and 31 December 2008:

	31 December 2009	31 December 2008	31 December 2007
Credit lines	6,300,477	4,233,789	3,538,824
Undrawn credit facilities	1,065,174	171,885	598,115

As of 31 December 2009 5,4% of the total outstanding short-term and long-term borrowings is denominated in foreign currency, of which approximately 95,1% is in USD, 4,1% is in UAH, 0% in Euro and 0,8% in BYR Roubles. (2008: 4.4% – approximately 80% is in USD, and 8% is in UAH, 6% in Euro and 6% in BYR Roubles; 2007: 4.5% – approximately 90% is in USD, and 10% is in UAH).

The Group did not exceed the credit limits of any of the banks during the reporting period. The management of the Group does not see any credit risks that could arise as a result of financial transactions (as well as any threat of discontinued operation) of these banks.

Liquidity ratio. The Group's approach to managing liquidity is to ensure, to the extent possible, that the Group maintains, at all times, sufficient liquidity for settling its liabilities in due time avoiding unacceptable losses or risks of damaging Group reputation. In perspective, the Group's strategy is to maintain the liquidity ratio at 1.5.

	31 December 2009	31 December 2008	31 December 2007
Liquidity ratio	1.21	0.79	0.88
Current assets	6,939,845	6,206,316	6,152,381
Current liabilities	5,729,161	7,902,531	7,009,515

To manage the targeted liquidity ratio the Group transfers its short-term loans and borrowings to long-term ones.

Management of capital. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to reduce the cost of capital. For different borrowings taken by different companies banks provide different interest rates (Note 16).

Gearing ratio. The Group pursues a policy of ensuring a sustainable level of capital that allows the Group to maintain the trust of the investors, creditors and the market, and secure future business development. The Group strives to maintain a balance between the potential increase of revenues, which could be achieved with higher level of borrowings, and the advantages and safety, which the sustainable equity position gives.

37 Financial Risk Management (continued)

Financial risk factors (continued)

(c) Liquidity risk (continued)

The Group controls capital by calculating a Gearing ratio. This ratio is calculated as the net borrowing divided by total capital. The net borrowing includes all of the long-term and short-term borrowings carried on the Group's consolidated statement of financial position less the cash and cash equivalents. The capital is calculated as the sum of equity and net assets attributable to participants (for 2007) plus minority interest in the consolidated statement of financial position. In 2009, the Group's strategy, which have been to maintain the gearing ratio at the level not exceeding 200%.

As of the end of the reporting period the Gearing ratio was as follows:

	31 December 2009	31 December 2008	31 December 2007
Long-term loans	3,396,766	787	52,631
Short-term loans	1,878,774	4,081,922	2,898,852
Total borrowings received	**5,275,540**	**4,082,709**	**2,951,483**
Cash	(758,566)	(670,102)	(378,093)
Net borrowing	**4,516,974**	**3,412,607**	**2,573,390**
Equity	1,705,096	2,077,398	-
Net assets attributable to participants	-	-	1,756,562
Minority interest	669,631	648,114	567,953
Total capital	**2,374,727**	**2,725,512**	**2,324,515**
Gearing ratio	**190%**	**125%**	**111%**

Financial assets carried at amortised cost. 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 credit risk of the counterparty. Carrying amounts of trade and other financial receivables approximate fair values.

Liabilities carried at amortised cost. Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of borrowings and trade and other payables approximate fair values.

38 Events after the Statement of Financial Position Date

Acquisition of Giprotumenneftegaz OJSC

In a series of transactions made during the first half 2010 the Group acquired 51% interest in Gyprotumenneftegaz OJSC ("GTNG") for RR 2,467,309 paid in cash. Management has commenced assessment of the fair values of the assets and liabilities acquired. The assessment was not completed at the time of finalising these financial statements.

	Attributed fair value determined provisionally
Cash and cash equivalents	127,872
Property, plant and equipment	195,126
Investment	401,674
Inventory	198,315
Receivables	839,918
Other assets	92,609
Trade and other payables	(243,471)
Other liabilities	(11,310)
Fair value of net assets of subsidiary	**1,600,733**
Less: minority interest	784,359
Less: interest acquired previously	32,015
Fair value of acquired interest in net assets of subsidiary	**784,359**
Goodwill arising from the acquisition	1,682,950
Total purchase consideration	**2,467,309**
Less: carrying amount of investment in the acquiree prior to the acquisition.	94,776
Less: cash and cash equivalents of subsidiary acquired.	127,872
Outflow of cash and cash equivalents on acquisition	**2,244,661**

38 Events After the Statement of Financial Position Date (continued)

The determined provisionally goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined costs savings expected to arise.

The valuation of identifiable tangible and intangible assets is being performed by an independent professional appraiser but has not been completed, so attributed fair value of assets and liabilities acquired is determined provisionally.

The acquired entity did not prepare IFRS financial statements prior to the acquisition. Management believes that determination of IFRS carrying amounts immediately before the acquisition is impractical.

Borrowings. Subsequent to the statement of financial position date the Group's subsidiaries received long-term loans in the amount of RR 3,059,849 from OJSC NOMOS-BANK, ZAO UniCredit Bank and Sberbank. The amount RR 1,865,000 was received from OJSC NOMOS-BANK for the acquisition of Gyprotumenneftegaz OJSC. Long-term loans bear interest rates of 9.60-11.30% and payable from March 2011 to June 2012. These loans are secured by guarantees issued by the companies of the Group.

Subsequent to the statement of financial position date the Group's subsidiaries pledged 30% of Dimitrovgradkhimmash OJSC shares as a security for long-term borrowings.

Non-current assets held for sale. Subsequent to the statement of financial position date, management decided to sell certain items of property, plant and equipment in the amount of RR 96,709, which realizable value was assessed higher than the value in use.

Dividends. During 2010 the Group subsidiaries declared dividends to the holders of preference shares in subsidiaries in the amount of RR 145,941.