

PJSC EAlliance

Consolidated financial statements
prepared in accordance with IFRS
for the year ended 31 December 2009
together with Independent Auditor's Report

Consolidated financial statements
for the year ended 31 December 2009

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Independent Auditor's Report

To the Shareholders and the Board of Directors of PJSC EAlliance

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "EAlliance", and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

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

Basis for qualified opinion - Inadequate Disclosure

The Group has not completed identification of reportable segments for the purposes of IFRS 8 "Reportable segments" as of the date of issuing these consolidated financial statements. Hence, the Group does not disclose information on operating segments in these consolidated financial statements. We were unable to determine the effects of this departure from International Financial Reporting Standards, if any, on the consolidated financial statements notes as at 31 December 2009 and for the year then ended.

Qualified Opinion

In our opinion, except for the omission of the information included in the preceding paragraph, the consolidated financial statements present fairly, in all material respects the financial position of PJSC EAlliance as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of a matter

Without qualifying our opinion, we draw your attention to the fact that consolidated financial statements indicate that the Group's liabilities exceeded its total assets by RUR 1,247,584k as at 31 December 2009. The consolidated financial statements have been prepared on a going concern basis under the assumption that the shareholders will continue to provide support to enable the Group to meet its financial obligations as they fall due.



Audit Engagement Partner
V. Poguliaev
14 May 2010


Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2009

The following statement, which should be read in conjunction with the Auditor's Report on the consolidated financial statements set out on pages 3 - 4, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of PJSC EMAlliance and its subsidiaries (the "Group").

The management is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Group as at 31 December 2009, the results of its operations, cash flows and changes in equity for the year ended 31 December 2009 in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board.

In preparing the consolidated financial statements, the management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

The management, within its competencies, is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2009 were approved on 14 May 2010 by the management of the Group:



Levan Dzigua
General Director

PJSC EMAlliance

14 May 2010



Mikhail Belov
Chief Financial Officer

Consolidated statement of financial position at 31 December 2009

(in thousands of Russian Roubles)

	Notes	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	1,560,851	1,623,022
Intangible assets		46,762	49,372
Deferred tax assets	24	120,966	193,799
Available-for-sale investments	8	1,641	1,655
VAT receivable	11	403,184	1,501,098
Non-current trade accounts receivable	9	222,239	457,862
Prepayments	9	291,541	1,530,013
		2,647,183	5,356,823
Current assets			
Inventories	10	773,165	807,797
Taxes receivable	11	1,780,790	407,988
Trade and other accounts receivable	9	1,811,662	607,742
Prepayments	9	2,984,289	615,222
Amounts due from customers for contract work	12	5,901,436	4,342,546
Investments held-to-maturity	8	183	79,249
Cash and cash equivalents	13	616,379	3,739,946
		13,867,904	10,600,489
Total assets		16,515,087	15,957,312
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	17	1,601,000	1,601,000
Retained earnings		(3,484,760)	(3,614,381)
		(1,883,760)	(2,013,381)
Non-controlling interest		636,176	617,769
Total equity		(1,247,584)	(1,395,612)
Non-current liabilities			
Long-term borrowings	14	2,920,829	2,360,608
Long-term advances received	15	2,276,988	8,437,629
Other long-term liabilities	15	-	21,217
Employees benefit liability	16	139,292	137,696
		5,337,110	10,957,150
Current liabilities			
Trade and other accounts payable	15	1,524,766	1,450,542
Short-term advances received	15	9,728,638	3,150,312
Taxes payable	11	59,471	537,687
Short-term borrowings	14	975,967	804,663
Accrued liabilities	15	136,719	137,086
Amounts due to customers for contract work	12	-	315,484
		12,425,562	6,395,774
Total liabilities		17,762,671	17,352,924
Total equity and liabilities		16,515,087	15,957,312

Notes on pages 10 to 50 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2009

(in thousands of Russian Roubles)

	Notes	2009	2008
Revenue	18	9,593,100	7,437,091
Cost of sales	19	(6,908,474)	(5,342,722)
(Increase)/decrease in provision on losses under construction contracts		(15,151)	721,802
Gross profit		2,669,475	2,816,171
Selling and distribution expenses	20	(169,894)	(231,536)
General and administrative expenses	21	(1,419,424)	(1,298,259)
Other operating expenses, net	22	(161,166)	(141,457)
Foreign exchange (loss)/gain, net		(9,920)	110,756
Finance cost, net	23	(361,125)	(756,518)
Profit before taxation		547,946	499,156
Income tax expense	24	(193,156)	(298,142)
Net profit for the period		354,790	201,014
Total comprehensive income		354,790	201,014
Attributable to:			
Equity holders of the parent		316,271	(67,730)
Non-controlling interests		38,518	268,744
		<u>354,790</u>	<u>201,014</u>
Basic earnings/(loss) per share (in RUR)	17	0.198	(0.309)

Notes on pages 10 to 50 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2009
(in thousands of Russian Roubles)

	2009	2008
OPERATING ACTIVITIES		
Net profit for the year	354,790	201,014
Adjustments for:		
Depreciation and amortisation	300,256	305,893
Gain on obsolescence of inventory	(65,906)	(13,441)
Increase/(decrease) in provision on losses under construction	15,151	(721,802)
Changes in allowance for accounts receivable	(6,662)	53,951
Foreign exchange difference, net	9,920	(110,756)
Accounts payable written-off	(8,661)	(21,417)
Loss on disposal of property, plant and equipment	61,779	63,408
Interest expense	474,321	679,974
Interest income	(134,679)	(15,147)
Loss from initial recognition of financial instruments at fair value	35,388	55,831
(Gain)/loss on investments held to maturity	(43,980)	3,466
Income tax expense	193,156	298,142
Operating profit before changes in working capital	1,184,873	779,117
Decrease/(increase) in inventories	100,539	(102,311)
Increase in trade and other receivables	(4,830,701)	(5,103,155)
Increase in trade and other payables	308,543	8,367,942
Cash flows generated from/(used in) operations before income taxes and interest paid	(3,236,747)	3,941,594
Income tax paid	(81,605)	(291,651)
Interest paid	(315,931)	(452,156)
Net cash flows generated from/(used in) operating activities	(3,634,282)	3,197,787
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(222,431)	(315,665)
Proceeds from disposal of property, plant and equipment	3,038	17,544
Proceeds from disposal of investments in promissory notes	79,074	59,254
Purchase of other available-for-sale investments	(42,593)	(73,928)
Purchase of intangible assets	(59,224)	(37,230)
Proceeds from sale of other available-for-sale investments	29,233	10,010
Net change in loans given	(4,639)	(6,200)
Interest received	43,705	44,779
Net cash flows used in investing activities	(173,837)	(301,437)
FINANCING ACTIVITIES		
Proceeds from shares issue	251	1,600,000
Repayment of finance lease	(15,568)	(32,029)
Proceeds from borrowings	4,667,021	7,240,407
Repayment of borrowings	(3,918,146)	(8,796,869)
Dividends paid	(142,517)	(4,670)
Net cash flows generated from financing activities	591,041	6,839
Effect of exchange rate fluctuations on cash and cash equivalents	93,512	25,240
Net (decrease)/ increase in cash and cash equivalents	(3,123,567)	2,928,428
Cash and cash equivalents at beginning of year	3,739,946	811,518
Cash and cash equivalents at end of year	616,379	3,739,946

Notes on pages 10 to 50 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2009

(in thousands of Russian Roubles)

	Attributable to equity holders of the parent			Non-controlling interest	Total equity
	Share capital	Retained earnings	Total		
Balance at 31 December 2007	1,000	(3,682,834)	(3,681,834)	333,675	(3,348,159)
Comprehensive income			-		-
(Loss)/income for the year	-	(67,730)	(67,730)	268,744	201,014
Total comprehensive (loss)/ income	-	(67,730)	(67,730)	268,744	201,014
Transactions with owners					
Proceeds from shares issue	1,600,000	-	1,600,000	-	1,600,000
Acquisition of non-controlling interests	-	(66,065)	(66,065)	(6,952)	(73,017)
Dividends on preference shares of subsidiaries for 2007	-	(15,068)	(15,068)	(7,382)	(22,450)
Disposals of non-controlling interests	-	217,316	217,316	29,684	247,000
Total transactions with owners	1,600,000	136,183	1,736,183	15,350	1,751,533
Balance at 31 December 2008	1,601,000	(3,614,381)	(2,013,381)	617,769	(1,395,612)
Comprehensive income					
Profit for the year	-	316,271	316,271	38,518	354,790
Total comprehensive income	-	316,271	316,271	38,518	354,790
Transactions with owners					
Acquisition of non-controlling interests	-	(28,346)	(28,346)	(11,862)	(40,208)
Dividends on preference shares of subsidiaries for 2008	-	(29,533)	(29,533)	(8,249)	(37,782)
Dividends on ordinary shares of the parent for 2008	-	(128,771)	(128,771)	-	(128,771)
Total transactions with owners	-	(186,650)	(186,650)	(20,111)	(206,761)
Balance at 31 December 2009	1,601,000	(3,484,760)	(1,883,760)	636,176	(1,247,584)

Notes on pages 10 to 50 form an integral part of these consolidated financial statements.

1. Corporate information

The consolidated financial statements of the PJSC EMAlliance comprise financial information on PJSC “EMAlliance” (the “Company”) and its subsidiaries (together - the “Group” or “EMAlliance”). Principal subsidiaries are disclosed in Note 28. The Company is an open joint stock (public) company as defined in the Civil Code of the Russian Federation.

PJSC EMAlliance was founded on 24 February 2005. The Company is located at 220, Lenin str., Taganrog city, Rostov Region, Russian Federation.

EMAlliance is one of Russia’s largest power machine-building groups. The Group has a global experience and competence in engineering and supply of power generating equipment.

EMAlliance provides a wide range of engineering and production:

- coal and gas&oil boilers of steam capacity 50 to 3950 ton per hour with steam conditions achieving ultrasupercritical values;
- heat recovery steam generators of steam capacity up to 1000 ton per hour for combined cycle power plants;
- circulating fluidized bed boilers;
- boiler island on turn-key basis.

EMAlliance covers over 80% of the Russian boilers market. The Group’s products are sold in the Russian Federation and abroad.

Engineering subsidiaries of EMAlliance are located in the following cities of Russia: Taganrog, Podolsk, Barnaul and Ivanovo.

EMAlliance has gained experience in power projects under EPC (Engineering, Procurement and Construction) contracts. New approach to marketing in Russia exposes a number of the Group competences to be as follows: the company has consolidated the manufacturing facilities of the leading boiler designers and has integrated high-qualified managers with long-term expertise in such contracts.

EMAlliance is a reliable supplier of advanced technological solutions applied successfully for engineering and supply of boiler islands of thermal power plants. EMAlliance sets itself the objective to become Russia’s key power engineering company and one of the world’s market leaders.

The parent company of the Company is Auburn Investments Ltd. incorporated in Cyprus. Auburn Investments Ltd owns 100% of ordinary shares of the Company as at 31 December 2009 (31 December 2008: 100%). Group is ultimately controlled by Mr. Evgeny Tugolukov.

2. Basis of preparation of the financial statements

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) effective as at 1 January 2009 including earlier accepted International Financial Reporting Standards and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

Basis of accounting

The Group companies maintain their accounting records in Russian Roubles (“RUR”) and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

New accounting pronouncements

(a) New/Revised Standards and Interpretations Adopted in 2009

In the current year, the Group has adopted all new International Financial Reporting Standards (“IFRS”) and interpretations issued by International Financial Reporting Interpretation Committee (“IFRIC”) that are mandatory for adoption in the annual periods beginning on or after 1 January 2009.

(i) Amendments to IFRS 7 “Financial Instruments: Disclosures” – Improving Disclosures about Financial Instruments.

The amended Standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. These additional disclosures are presented in Note 29.

(ii) IFRS 8 “Operating Segments”

It replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, ‘Disclosures about segments of an 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.

(iii) IAS 1 (revised) “Presentation of Financial Statements”

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement. As a result the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard.

(iv) IAS 23 (revised), ‘Borrowing costs’.

It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period of time to get ready for use or sale as part of the cost of that asset. The Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. For the goods produced under long-term construction contracts borrowing costs are included in the contract costs only for borrowings that are directly attributable to the contract. Therefore, the adoption of this amendment did not have any significant impact on the financial position or performance of the Group.

The following interpretations were adopted in 2009 but did not affect the Company’s financial statements:

IAS 16 (Amended) “Property, plant and equipment”

IAS 20 (Amended) “Accounting for Government Grants and Disclosure of Government Assistance”

IAS 28 (Amended) “Investments in Associates”

IAS 31 (Amended) “Interest in Joint Ventures”

IAS 32 (Amended) “Financial Instruments: Presentation”

IAS 36 (Amended) “Impairment of Assets”

IAS 38 (Amended) “Intangible Assets”

IAS 40(Amended) “Investment Property”

IFRS 1 (Amended) “First-time Adoption of International Financial Reporting Statements”

IFRS 5 (Amended) “Non-current Assets Held for Sale and Discontinued Operations”

IFRIC 13 “Customer Loyalty Programmes”

IFRIC 15 “Agreements for the Construction of Real Estate”

IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”

IFRIC 18 “Transfers of Assets from Customers”

Notes to the consolidated financial statements (continued)

(b) Standards and interpretations in issue but not yet adopted

At the date of authorization of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

Standards and Interpretations	Effective for annual periods beginning on or after
IFRS 2 (revised) “Share-based Payment” – Group Cash-settled Share-based Payment Transactions	January 1, 2010
IFRS 3 (revised) “Business Combinations”	July 1, 2009
IAS 27 (revised) “Consolidated Financial Statements”	July 1, 2009
IAS 24 (revised) “Related Party Disclosures”	January 1, 2011
IFRS 9 “Financial Instruments”	January 1, 2013
IFRIC 17 “Distributions of Non-Cash Assets to Owners”	July 1, 2009
IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”	July 1, 2010
Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – Eligible Hedged Items	July 1, 2009
Amendment to IAS 32 “Financial Instruments: Presentation”	February 1, 2010
Amendments to IFRIC 14/IAS 19 “Prepayments of a Minimum Funding Requirement”	January 1, 2011
Amendments to standards following April 2009 “improvements to IFRS” project (separate transitional provisions for each standard)	

The impact of adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by management. Management anticipates that the adoption of these standards and interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial adoption.

3. Summary of significant accounting policies

3.1 Principles of Consolidation

Subsidiaries

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiaries transferred under common control are recorded in these consolidated financial statements at the historical cost of the controlling shareholder. Any difference between the total book value of net assets and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

Acquisition and disposal of non-controlling interest

Once control over the subsidiary has been achieved by the Group, further transactions whereby the Group acquires interests from minority shareholders, or disposes of equity interests but without losing control, are accounted for as equity transactions. The carrying amounts of equity attributable to the parent and to the minority interest are adjusted to reflect the changes in their relative interest in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the consideration paid or received is recognized directly in equity and attributed to the owners of the parent, and there is no consequential adjustment to the carrying amount of goodwill and no gain or loss is recognized in the income statement.

3.2 Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Investments classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income. During the period the Group did not hold any investments in this category.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity.

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

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Reversals of impairment losses in respect of equity instruments are not recognised in the income statement. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

3.3 Cash and cash equivalents

Cash in the balance sheet comprises cash at banks and in hand and short-term deposits with an original maturity of three months or less.

3.4 Trade and other receivables

Trade receivables, which generally have a short term, are carried at original invoice amount less an allowance for any uncollectible amounts.

The Group applies the following rule for impairment provisions on receivables based on historical experience:

- (a) If the age of individual receivable at the balance sheet is more than 6 months, such receivable is fully impaired.
- (b) If the age of individual receivable at the balance sheet is more than 3 months, but less than 6 months, such receivable date is impaired by 50%.
- (c) If the age of individual receivable at the balance sheet date is less than 3 months, the receivable is considered not to be impaired.

In addition to the abovementioned basic rule, the impairment provision is also adjusted taking into account the receivable status at the date of issuing the consolidated financial statements as follows:

(a) If the individual receivable is provided for at balance sheet date, but it is already collected at the date of issue of the financial statements, in such case the impairment allowance is reversed.

(b) If the age of individual receivable is more than 6 months at the date of issue the financial statements, such receivable is fully impaired. Also if at the issue date the age of individual receivable is more than 3 months, but less than 6 months, such receivable is impaired by 50%.

Some significant receivables balances are assessed for impairment individually on the basis of actual situation and possibility of debt collection assessed by management.

3.5 Value added tax

Output value added tax ("VAT") 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 balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

3.6 Inventories

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

3.7 Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred if the recognition criteria are met. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, 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 difference is recognised as an expense (impairment loss) in the income statement. 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 asset's recoverable amount.

Notes to the consolidated financial statements (continued)

Depreciation is calculated on a straight-line basis. The depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

	<u>Number of years</u>
Buildings and transfer devices	25 to 45
Plant and equipment	5 to 25
Fixtures and fittings	3 to 12

The asset's residual values, useful lives and methods are reviewed and adjusted as appropriate, at each financial year-end.

Repair and maintenance expenditures are expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred.

When each major inspection is performed, its cost is recognised as a component in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed as incurred.

3.8 Borrowings

Borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method; any difference between the initial fair value of the consideration received (net of transaction costs) and the redemption amount is recognised as an adjustment to interest expense over the period of the borrowings.

3.9 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the

temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.10 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

3.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, 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 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.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a interest expense.

3.12 Equity

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are

proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

3.13 Revenue recognition

Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Where the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed.

Long-term construction contracts

Contract revenue reflects the contract activity during the year and is measured at the fair value of consideration received or receivable. When the outcome can be assessed reliably, contract revenue and associated costs are recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion is normally measured by the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

Where the outcome of a long term contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable, and contract costs are recognized as an expense in the period in which they are incurred.

Variations are only recognized as revenue when they have been agreed with the customer. Claims are not recognized until negotiations are at an advanced stage such that it is probable that the customer will accept the claim and the amount that is probable will be accepted by the customer can be measured reliably.

The outcome of a construction contract is deemed to be estimated reliably when all the following conditions are satisfied:

- total contract revenue can be measured reliably;
- it is probable that economic benefits associated with the contract will flow to the Group;
- both the contract costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably; and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

The gross amount due from customers for contract work (amounts recoverable on contracts) is presented as an asset for all contracts in progress for which costs incurred plus recognized profits (less a provision for recognized losses) exceeds progress billings.

The gross amount due to customers for contract work is presented as a liability for all contracts in progress for which billings exceed costs incurred plus recognized profits (less a provision for recognized losses).

Full provision is made for losses for all contracts in the period when the loss is first foreseen.

3.14 Employee benefits

Pension costs

The Group has agreed to provide certain additional post employment benefits to employees. These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense immediately.

State pension scheme

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

3.15 Foreign currency transactions

The consolidated financial statements are presented in Russian Rouble (RUR), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

4. Significant accounting judgements and estimates

4.1 Judgements

In the process of applying the Group's accounting policies, the management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Accounting for long-term construction contracts

To account for revenue on the long-term construction contracts, the management is required to estimate total expected contract costs and the percentage of contract completion in determining the appropriate revenue and profit to recognize in the period. The Group has appropriate control procedures to ensure all estimates are determined on a consistent basis and subject to appropriate review and authorization. The management also exercised judgment in respect of determining the expected material loss (see Note 12).

Classification of lease agreements

Lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. If the lease term is for longer than 75 percent of the economic life of the asset, or that at the inception of the lease the present value of the minimum lease payments

amount to at least 90 percent of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

4.2 Estimation uncertainty

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

Useful life of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

Allowance for doubtful accounts

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit

worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. More details are provided in Note 9.

Pension obligations

Post-employment benefits are generally satisfied by plans which are classified and accounted for as defined benefit plans. The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. More details are provided in Note 16.

Litigations

The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions of the estimates may significantly affect future operating results.

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods. As of December 31, 2009 the management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 24.

Deferred tax assets

Management's judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the

event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in profit or loss.

5. Segment information

The Group has not completed identification of reportable segments for the purposes of IFRS 8 “Reportable segments” as of the date of issuing these consolidated financial statements.

6. Balances and transactions with related parties

In accordance with IAS 24 “Related Party Disclosures”, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. 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 might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with the related parties.

Related parties with whom the Company entered into significant transactions or had significant balances outstanding at 31 December 2009 and 2008 are detailed below.

Notes to the consolidated financial statements (continued)

Balances with related parties:

RUR'000

<i>31 December 2009</i>	<i>Trade and other receivables</i>	<i>Interest-bearing loans and borrowings</i>	<i>Trade and other accounts payable</i>
Parent company	12,480	317,189	20,524

31 December 2008

<i>31 December 2008</i>	<i>Trade and other receivables</i>	<i>Interest-bearing loans and borrowings</i>	<i>Trade and other accounts payable</i>
Parent company	29,380	-	14,990

Transactions with related parties:

2009

<i>2009</i>	<i>Finance costs</i>
Parent company	76,552

2008

<i>2008</i>	<i>Finance cost</i>
Parent company	315,898

Finance costs from the parent company for the year ended 31 December 2009 consist of interest expenses on loans received (2008: finance costs from the parent consist of amortization of discount on long-term payables).

Compensation to key management personnel

The key management personnel comprise members of the Management Board and Board of Directors of the Group, totalling 30 persons as at 31 December 2009 (2008: 27). Total compensation to the key management personnel included in administrative expenses in the income statement amounted to RUR 21,258k for the year ended 31 December 2009 (2008: RUR 37,198k). Compensation to the key management personnel consists of the following:

'000 RUR	2009	2008
Salaries	16,105	33,377
Termination benefits	2,195	246
Other benefits	2,958	3,575
	21,258	37,198

7. Property, plant and equipment

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

'000 RUR	Buildings and constructions	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost/Deemed cost					
At 1 January 2008	1,013,564	1,907,348	98,795	36,355	3,056,061
Additions	-	-	-	307,978	307,978
Disposals	(25,090)	(77,105)	(1,267)	57	(103,405)
Transfers	73,552	197,943	21,499	(292,994)	-
At 31 December 2008	1,062,026	2,028,186	119,027	51,396	3,260,635
Additions	-	-	-	235,451	235,451
Disposals	(35,947)	(105,894)	(2,079)	(3,872)	(147,792)
Transfers	16,147	100,632	23,770	(140,549)	-
At 31 December 2009	1,042,226	2,022,924	140,718	142,426	3,348,294
Depreciation and impairment losses					
At 1 January 2008	(540,438)	(822,198)	(25,641)	-	(1,388,276)
Depreciation charge	(93,529)	(172,401)	(9,342)	-	(275,271)
Disposals	3,630	21,876	428	-	25,934
At 31 December 2008	(630,337)	(972,722)	(34,554)	-	(1,637,613)
Depreciation charge	(48,291)	(177,727)	(10,878)	-	(236,895)
Disposals	20,128	66,138	800	-	87,066
At 31 December 2009	(658,500)	(1,084,311)	(44,632)	-	(1,787,443)
Net book value					
At 1 January 2008	473,126	1,085,150	73,154	36,355	1,667,785
At 31 December 2008	431,689	1,055,464	84,473	51,396	1,623,022
At 31 December 2009	383,727	938,613	96,086	142,426	1,560,851

As at 31 December 2009 the cost of fully depreciated property, plant and equipment was RUR 858,639k (2008: RUR 633,566k).

The following assets have been pledged to secure Group's borrowings, guarantees and bails (Note 14, 15):

	2009 '000 RUR	2008 '000 RUR
Pledges to secure bank loans	876,987	761,763
Pledges to secure guarantees	1,148	2,345
	878,135	764,108

8. Investments

	31 December 2009	31 December 2008
	'000 RUR	'000 RUR
<i>Non-current</i>		
Available-for-sale investments	1,641	1,655
<i>Current</i>		
Loans issued – 3 rd parties	183	175
Promissory notes	-	79,074
	<u>183</u>	<u>79,249</u>
	<u>1,824</u>	<u>80,904</u>

Loans issued bear the interest rates from 5% to 12% per annum.

9. Trade and other receivables, prepayments

	31 December 2009	31 December 2008
	'000 RUR	'000 RUR
Non-current accounts receivable and prepayments		
Prepayments	291,541	1,530,013
Non-current trade accounts receivables - 3 rd parties	274,420	508,552
Allowance for accounts receivable	(52,181)	(50,690)
	<u>513,780</u>	<u>1,987,875</u>
Current accounts receivable		
Trade accounts receivable – 3 rd parties	1,593,407	534,234
Other receivables – 3 rd parties	437,902	303,668
Other receivables - related parties	12,480	29,380
Prepayments – 3 rd parties	3,033,510	654,349
	<u>5,077,299</u>	<u>1,521,631</u>
Allowance for accounts receivable	(232,127)	(259,540)
Allowance for prepayments	(49,220)	(39,127)
	<u>4,795,951</u>	<u>1,222,964</u>
	<u>5,309,731</u>	<u>3,210,840</u>

The fair value of short and long term trade and other receivables approximates to their carrying amount.

Notes to the consolidated financial statements (continued)

As of 31 December 2009 and 2008, short-term trade and other receivables of RUR 1,025,546k and RUR 617,650k, respectively, were impaired and provided for. The amount of provision was RUR 232,127k and RUR 259,540k as of 31 December 2009 and 2008, respectively.

Ageing from the due date ‘000 RUR	Gross book value 31 December		Provision 31 December		Net book value 31 December	
	2009	2008	2009	2008	2009	2008
Trade accounts receivable						
Neither past due nor impaired	717,631	96,671	-	-	717,631	96,671
Up to 30 days	165,207	59,359	-	(2,356)	165,207	57,003
From 1 to 3 months	270,756	83,396	(9,823)	(14,897)	260,934	68,499
From 3 to 6 months	156,497	72,126	(1,166)	(31,547)	155,332	40,578
From 6 to 12 months	108,988	35,768	(2,916)	(5,176)	106,071	30,593
More than 1 year	174,327	186,913	(72,848)	(55,721)	101,479	131,192
	1,593,407	534,234	(86,753)	(109,698)	1,506,654	424,537
Other receivables						
Neither past due nor impaired	288,133	152,962	-	-	288,133	152,962
Up to 30 days	815	92	-	(46)	815	46
From 1 to 3 months	417	176	(184)	(1)	233	175
From 3 to 6 months	-	98	-	-	-	98
From 6 to 12 months	60	333	(26)	(8)	35	324
More than 1 year	148,477	150,008	(145,164)	(149,788)	3,312	220
	437,902	303,668	(145,375)	(149,843)	292,528	153,825
Other receivables-related parties						
Neither past due nor impaired	12,480	-	-	-	12,480	-
Up to 30 days	-	29,380	-	-	-	29,380
	12,480	29,380	-	-	12,480	29,380
	2,043,789	867,282	(232,127)	(259,540)	1,811,662	607,742

Accounts receivable include overdue receivables in the amount of RUR 638,109k related to large construction contract which is postponed and other contracts which are overdue. The management is in process of agreeing the future terms of this large contract completion and believes that the contract will be continued in August 2010 and successfully completed. Therefore, the above mentioned accounts receivable are not provided for. See below the ageing of these accounts receivable.

	31 December 2009 ‘000' RUR	31 December 2008 ‘000' RUR
Up to 30 days	118,837	-
From 1 to 3 months	251,987	25,539
From 3 to 6 months	152,040	9,698
From 6 to 12 months	67,779	12,364
More than 1 year	47,465	126,423
	638,109	174,025

Notes to the consolidated financial statements (continued)

As of 31 December 2009 and 2008, short-term prepayments of RUR 144,854k and RUR 131,632k, respectively, were impaired and provided for. Amount of the provision was RUR 49,220k and RUR 39,127k as of 31 December 2009 and 2008, respectively.

Ageing from the due date	Gross book value		Provision		Net book value	
	31 December		31 December		31 December	
	2009	2008	2009	2008	2009	2008
'000 RUR						
Prepayments						
Neither past due nor impaired	2,888,656	522,717	-	-	2,888,656	522,717
Up to 30 days	64,191	28,579	(5)	(10,886)	64,186	17,693
From 1 to 3 months	31,046	32,837	(2,761)	(10,850)	28,285	21,986
From 3 to 6 months	5,687	33,246	(3,912)	(3,765)	1,775	29,482
From 6 to 12 months	6,604	23,270	(5,509)	(5,805)	1,096	17,465
More than 1 year	37,325	13,700	(37,034)	(7,821)	291	5,879
	<u>3,033,510</u>	<u>654,349</u>	<u>(49,220)</u>	<u>(39,127)</u>	<u>2,984,289</u>	<u>615,222</u>

10. Inventories

Inventories consist of the following:

	31 December 2009	31 December 2008
	'000 RUR	'000 RUR
Materials	831,123	900,433
Work in progress	21,429	33,615
Finished goods	139,089	144,734
	<u>991,640</u>	<u>1,078,782</u>
Provision for obsolescence	(218,476)	(270,985)
	<u>773,165</u>	<u>807,797</u>

Bank borrowings (Note 14, 15) are secured on inventories for the value determined in accordance with national accounting standards as follows:

	31 December 2009	31 December 2008
	'000 RUR	'000 RUR
Pledges to secure bank loans	1,485,963	240,062
Pledges to secure guarantees	209,277	392,050
	<u>1,695,240</u>	<u>632,111</u>

In accordance with IFRS 1,595,211k (2008: RUR 632,111k) of the above mentioned inventories cost are already included in cost of sales and retained earnings of prior years.

11. Taxes receivable and payable

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
<i>Taxes receivable - current</i>		
Input VAT	134,547	73,850
Allowance for input VAT	(8,966)	(2,994)
VAT receivable*	1,567,370	226,794
Corporate income tax receivable	79,645	107,805
Other taxes receivable	8,194	2,532
	<u>1,780,790</u>	<u>407,988</u>
<i>Taxes receivable - non-current</i>		
VAT receivable*	403,184	1,501,098
	<u>403,184</u>	<u>1,501,098</u>
<i>Taxes payable</i>		
VAT payable on sales	12,338	473,596
Corporate income tax	1,749	1,966
Employees income tax	12,536	20,525
Property tax	4,074	4,091
Social taxes payable	28,279	36,979
Other taxes payable	495	531
	<u>59,471</u>	<u>537,687</u>

*VAT receivable represents the VAT paid to tax authorities which relate to advances received from customers

Notes to the consolidated financial statements (continued)

12. Construction contracts

(a) *Contracts in progress at the balance sheet date*

	31 December 2009	31 December 2008
	'000 RUR	'000 RUR
Contract costs incurred to date	12,995,040	7,326,381
Recognised profits less recognised losses to date	656,286	(371,704)
	13,651,325	6,954,677
Less progress billings to date	(7,749,889)	(2,927,616)
	5,901,436	4,027,061

(b) *Recognized and included in the financial statements as amounts due:*

	31 December 2009	31 December 2008
	'000 RUR	'000 RUR
From customers for contract work	5,901,436	4,342,546
To customers for contract work	-	(315,484)
	5,901,436	4,027,061

(c) *Advances received and retentions held by customers for contract work:*

	31 December 2009	31 December 2008
	'000 RUR	'000 RUR
Advances received from customers for contract work	12,005,626	11,587,941
Retentions held by customers for contract work	222,239	250,241

(d) *Contract revenues and costs for the period*

	2009	2008
	'000 RUR	'000 RUR
Contract revenue for the period	9,502,354	7,341,300
Contract costs for the period	(6,851,028)	(4,544,287)
Contract gross profit for the period	2,651,326	2,797,013

All contracts, except one large contract of the main Group's subsidiary (PJSC "Krasny Kotelschik") are normally profitable. Total loss on this contract recognised in retained earnings as at 31 December 2009 amounts to RUR 1,327,196k.

13. Cash and cash equivalents

	31 December 2009	31 December 2008
	'000 RUR	'000 RUR
Petty cash	105	164
Current accounts in RUR	558,309	3,662,041
Current accounts in foreign currencies	47,285	77,741
Letter of credit	10,681	-
	616,379	3,739,946

RUR 51,126k of current accounts as at 31 December 2009 are restricted. (2008: 68,115k).

Notes to the consolidated financial statements (continued)

14. Borrowings

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Non-current		
Secured bank loans	1,609,690	900,000
Bonds	993,357	1,457,924
Unsecured loan from related parties	317,189	-
Finance lease liability	593	2,684
	<u>2,920,829</u>	<u>2,360,608</u>
Current		
Current portion of secured bank loans	972,286	792,065
Current portion of finance lease liability	3,681	12,598
	<u>975,967</u>	<u>804,663</u>

The fair value of short term and long term borrowings approximates to their carrying amount.

As at 31 December 2009 loans in amount of RUR 2,581,976k (2008: RUR 1,692,065k) are guaranteed by pledge of property, plant and equipment with a carrying amount of RUR 876,987k (2008: RUR 761,763k) and inventories with cost in accordance with national accounting standards of RUR 1,485,963k (2008: RUR 240,062k) (see details in Notes 7, 10).

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

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Borrowings in Russian Roubles	3,892,522	3,149,989
	<u>3,892,522</u>	<u>3,149,989</u>

Borrowings details are as follows:

Name	Currency	Final Maturity	31 December	31 December	Type of interest rate	Effective interest rate	
			2009	2008		2009	2008
			'000 RUR	'000 RUR			
<i>Long-term borrowings payable to:</i>							
Sberbank	RUR	2011	900,000	900,000	Variable rate	11.65%-13.0%	11.65%-13.0%
Sberbank	RUR	2012	484,690	-	Fixed rate	15.50%	-
Sberbank	RUR	2011	200,000	-	Fixed rate	17%	-
IBSP	RUR	2011	25,000	-	Fixed rate	18%	-
Auburn Investments Ltd.	RUR	2011	317,189	-	Fixed rate	18%	-
Bonds holders	RUR	2011	993,357	1,457,924	Fixed rate	18%	18%
Total			<u>2,920,236</u>	<u>2,357,924</u>			
<i>Short-term borrowings payable to:</i>							
MDM bank	RUR	2010	460,000	-	Fixed rate	19.75%	-
MDM bank	RUR	2010	340,000	-	Fixed rate	13.75%	-
MDM bank	RUR	2010	90,000	-	Fixed rate	21.00%	-
Credit Bank of Moscow	RUR	2010	44,786	-	Fixed rate	20.50%	-
Bank ZENIT	RUR	2010	37,500	-	Fixed rate	18.00%	-
MDM bank	RUR	2009	-	335,000	Fixed rate	-	15.50%
Sberbank	RUR	2009	-	200,000	Variable rate	-	11.40-13.0%
Sberbank	RUR	2009	-	257,065	Fixed rate	-	13.75%
Total			<u>972,286</u>	<u>792,065</u>			

Notes to the consolidated financial statements (continued)

Repayment schedule of long-term borrowings is as follows:

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Due for repayment:		
Between one and two years	2,435,546	-
Between two and five years	484,690	2,357,924
	2,920,236	2,357,924

The weighted average effective interest rates at the balance sheet date were as follows:

	2009	2008
Fixed rate RUR denominated long-term borrowings	17.30%	18.00%
Fixed rate RUR denominated short-term borrowings	17.73%	14.74%
Variable rate RUR denominated short-term borrowings	-	13.00%
Variable rate RUR denominated long-term borrowings	13.00%	13.00%

Finance leases

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	31 December 2009		31 December 2008	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	'000 RUR	'000 RUR	'000 RUR	'000 RUR
Within one year	3,822	3,681	13,405	12,598
After one year but not more than five years	1,113	593	4,935	2,684
Total minimum lease payments	4,935	4,274	18,340	15,282
Less: amounts representing interest	(660)	-	(3,058)	-
Present value of minimum lease payments	4,274	4,274	15,282	15,282

The amounts representing interest are based on effective interest rate of 12%.

15. Trade and other payables

	31 December 2009	31 December 2008
	'000 RUR	'000 RUR
Non-current trade and other payables		
Advances received from customers – 3 rd parties	2,276,988	8,437,629
Other long-term liabilities – 3 rd parties	-	21,217
	<u>2,276,988</u>	<u>8,458,846</u>
Current trade and other payables		
Trade accounts payable – 3 rd parties	1,385,298	1,285,595
Advances received from customers – 3 rd parties	9,728,638	3,150,312
Accrued liabilities	84,891	100,781
<i>Payroll payable</i>	25,770	45,599
<i>Unused vacation liability</i>	59,121	55,182
Dividends payable on preference shares	51,828	36,305
Other payables – 3 rd parties	118,944	149,957
Other payables-related parties	20,524	14,990
	<u>11,390,123</u>	<u>4,737,939</u>
	<u>13,667,112</u>	<u>13,196,785</u>

The fair value of short and long term trade and other payables approximates their carrying amount.

Advances received from customers are secured by guarantees as follows:

Date of issue	Holder of pledge	'000 RUR	Contract num	Contract date	Maturity date	Beneficiary
10.07.2008	BSGV bank	147,500	№0235444/004/LC	10.07.2008	10.07.2010	Power machines
25.01.2007	UCB bank	456,967	№07/OGR/5070021	25.01.2007	30.09.2010	Mosenergo PJSC
12.01.2007	MDM bank	679,346	№DG-DG-625/06	12.01.2007	30.09.2010	Mosenergo PJSC
24.09.2008	Alfa bank	221,266	№45974	24.09.2008	31.12.2010	JGK-6 PJSC
		<u>1,542,511</u>				

As at 31 December 2009 guarantees in amount of RUR 147,500k (2008: RUR 222,835k) are secured by pledge of property, plant and equipment with a carrying amount of RUR 1,148k (in 2008: RUR 2,345k) and inventories with a carrying amount in accordance with national accounting standards of RUR 206,740k (2008: RUR 392,050k) (see details in Notes 7, 10).

As at 31 December 2009, RUR 2,076,034k (2008: 2,076,034k) of advances received from customers are secured by 50% (2008: 50%) of (or 106,629,001) (2008: 106,629,001) ordinary shares of the Group's subsidiary PJSC Krasny Kotelschik.

Ageing analysis of trade and other payables and advances received from customers is presented in the following table:

Notes to the consolidated financial statements (continued)

(a) Ageing analysis of trade and other payables

Ageing from the due date	Gross book value	
	31 December	
	2009	2008
Trade accounts payable – 3 rd parties		
Not past due	582,869	452,231
Up to 30 days	167,353	238,323
From 1 to 3 months	168,621	290,584
From 3 to 6 months	182,475	150,956
From 6 to 12 months	43,717	107,494
More than 1 year	240,263	46,006
	1,385,298	1,285,595
Other payables – 3 rd parties		
Not past due	97,160	113,194
Up to 30 days	320	-
From 1 to 3 months	5	2,000
From 3 to 6 months	-	13,348
From 6 to 12 months	52	133
More than 1 year	21,408	21,282
	118,944	149,957
Other payables-related parties		
Not past due	20,524	14,990
	20,524	14,990
	1,524,766	1,450,542

(b) Ageing analysis of advances received from customers

Ageing from the due date	Gross book value	
	31 December	
	2009	2008
Advances received from customers		
Not past due	5,294,298	2,581,802
Up to 30 days	42,938	125,698
From 1 to 3 months	689,676	1,758
From 3 to 6 months	269,244	187,162
From 6 to 12 months	20,500	125,800
More than 1 year	3,411,982	128,092
	9,728,638	3,150,312
Payroll payable		
Not past due	25,770	45,599
	25,770	45,599
Dividends payable		
Not past due	51,828	36,305
	51,828	36,305
	9,806,236	3,232,216

16. Employees benefit liabilities

The employees benefit liabilities are relevant only to subsidiary company PJSC Krasny Kotelschik. The Group has obligations on the following types of employees benefits:

- lump-sum payments at retirement;
- quarterly pension payments;
- lump-sum payments linked to certain ages – jubilee benefits;
- lump-sum funeral compensations.

Lump-sum benefits at retirement, pension benefits, and funeral compensations are classified as ‘post-employment benefits’; jubilee benefits are classified as ‘other long-term benefits’, according to the classification of IAS 19.

In accordance with IAS 19 the benefit plans are classified as defined benefit plans with respect to formalized and constructive obligations. The plans are a non-funded.

The following tables summarize the components of net benefit expense recognized in the income statement for the respective plans for the years ended 31 December 2009 and 2008:

	2009	2008
	'000 RUR	'000 RUR
Current service cost	3,221	3,000
Interest cost	10,284	8,436
Past service cost	20,406	-
Net actuarial loss recognized in the period	(24,743)	4,040
	<u>9,169</u>	<u>15,476</u>

The following tables summarize the funded status and amounts recognized in the balance sheet for the respective plans as of 31 December 2009 and 2008:

	31 December	31 December
	2009	2008
	'000 RUR	'000 RUR
Benefit obligation (PV per actuarial valuation)	(123,323)	(137,696)
Plan assets	-	-
	<u>(123,323)</u>	<u>(137,696)</u>
Unrecognized past service cost	(15,969)	-
Benefit liability – non-current	<u>(139,292)</u>	<u>(137,696)</u>

Changes in the present value of the defined benefit obligation are as follows:

	2009	2008
	'000 RUR	'000 RUR
As at January 1	137,696	129,788
Interest cost on benefit obligation	10,284	8,436
Current service cost	3,221	3,000
Past service cost	4,437	-
Benefits paid	(7,572)	(7,568)
Actuarial losses on obligation	(24,743)	4,040
As at December 31	<u>123,323</u>	<u>137,696</u>

Notes to the consolidated financial statements (continued)

The principal assumptions used in determining benefit obligations for the Group's plan are shown below:

	2009	2008
Discount rate	9.50%	9.00%
Wage growth rate	8.00%	8.00%
Inflation rate	7.00%	6.50%

	2009	2008
	'000 RUR	'000 RUR
Defined benefit obligation	123,323	137,696
Deficit	(123,323)	(137,696)
Experience adjustments on plan liabilities	(15,765)	5,795

17. Equity

Total number of outstanding shares comprises:

	Number of outstanding shares (thousands)	
	Preference shares	Ordinary shares
At 31 December 2008	-	1,601,000
Issue of shares	-	-
At 31 December 2009	-	1,601,000

The authorised number of ordinary shares is 1,601,000 (2008: 1,601,000) respectively, both with a nominal value of RUR 1 per share. All authorised shares have been issued and fully paid.

Dividends

In June 2009 the Company has accrued dividends on the ordinary shares for the year 2008 in amount of RUR 128,771k. The dividends are paid in full in the year 2009.

In September 2007 PJSC Krasny Kotelschik has accrued dividends on the preference shares for the year 2006 in amount of RUR 7,564k. In July 2008 PJSC Krasny Kotelschik has accrued dividends on the preference shares for the year 2007 in amount of RUR 22,450k. In July 2009 PJSC Krasny Kotelschik has accrued dividends on the preference shares for the year 2008 in amount of RUR 37,782k. The outstanding balance for dividends payable included in accounts payable (Note 15) relates to the dividends accrued in the years 2007, 2008 and 2009, but not paid yet as at the reporting date.

18. Sales revenue

The components of sales revenues were as follows:

	2009	2008
	'000 RUR	'000 RUR
Energy generating and other equipment	9,390,178	7,097,269
Associated services	112,176	244,032
Sales of materials and goods	90,745	95,791
	<u>9,593,100</u>	<u>7,437,091</u>
Export sales	1,949,390	1,772,341
Domestic sales	7,643,710	5,664,750
	<u>9,593,100</u>	<u>7,437,091</u>
Export sales - direct sales	31,018	19,270
Export sales - sales via intermediaries	1,918,372	1,753,071
	<u>1,949,390</u>	<u>1,772,341</u>

The table below shows the customers who provide individually more than 10% of the Group's sales revenue:

	2009	2008
	'000 RUR	'000 RUR
Tehnopromeksport	2,353,540	1,070,053
OGC-6	1,947,266	481,346
Mosenergo	1,417,824	1,515,012
Revenue from other customers	3,874,470	4,370,680
	<u>9,593,100</u>	<u>7,437,091</u>

19. Cost of sales

The components of cost of sales were as follows:

	2009	2008
	'000 RUR	'000 RUR
Materials	2,351,413	1,632,604
Subcontract products and works	3,195,240	2,463,308
Production staff costs	708,833	712,389
Energy	218,824	193,518
Utilities	14,139	14,258
Depreciation and amortisation	167,247	198,399
Depreciation	165,095	190,544
Amortisation	2,151	7,855
Repair services	26,007	25,787
Business trips	19,296	16,685
Taxes	35,693	30,338
Professional services	163,350	41,403
Capitalised expenses	(39,083)	(39,193)
Change in work-in-progress (WIP)	38,245	(12,306)
Change in finished goods (FG)	75,175	78,973
Inventory adjustments	(65,906)	(13,441)
Stock count results	(13,397)	(1,925)
Change in impairment allowance for raw materials	(22,701)	26,169
Change in impairment allowance for WIP	(10,415)	13,620
Change in impairment allowance for FG	(19,393)	(51,305)
	6,908,474	5,342,722

20. Selling and distribution costs

Selling and distribution costs comprise:

	2009	2008
	'000 RUR	'000 RUR
Staff expenses	29,138	32,177
Transportation of finished goods	134,034	89,502
Materials	2,021	3,844
Advertising	3,123	4,783
Depreciation and amortisation	1,692	2,393
Depreciation	1,530	1,366
Amortisation	161	1,027
Business trips expenses	762	1,463
Agent's services	606	38,940
Property tax	19	60
Change in allowance for doubtful debts	(6,662)	53,951
Professional services	5,162	4,423
	169,894	231,536

21. General and administrative expenses

General and administrative expenses comprise:

	2009	2008
	'000 RUR	'000 RUR
Administration staff expenses	852,116	825,107
Energy	16,514	10,482
Utilities	5,928	2,517
Depreciation and amortisation	130,289	102,112
Depreciation	70,270	80,372
Amortisation	60,019	21,740
Telecom	7,637	8,875
Business trips expenses	35,707	44,756
Insurance	42,307	23,419
Materials	38,426	35,742
Taxes	11,554	11,683
Professional services	278,945	233,567
	<u>1,419,424</u>	<u>1,298,259</u>

22. Other operating income and expenses

The components of other expenses were as follows

	2009	2008
	'000 RUR	'000 RUR
<i>Other operating income</i>		
(Loss)/gain on property rent, net	(5,467)	4,431
<i>including depreciation</i>	(1,029)	(2,989)
Accounts payable written-off	8,661	21,417
Other income	16,805	4,452
<i>Total other operating income</i>	<u>19,999</u>	<u>30,300</u>
<i>Other operating expenses</i>		
Loss on social business units	(29,595)	(37,788)
Charity and other social expenses	(38,136)	(26,521)
Unrecovered VAT	(33,214)	(4,115)
Loss on disposal of property, plant and equipment, net	(61,779)	(63,408)
Fines and penalties	(4,590)	(3,282)
Other expenses	(13,852)	(36,642)
<i>Total operating expenses</i>	<u>(181,165)</u>	<u>(171,757)</u>
<i>Other operating expenses, net</i>	<u>(161,166)</u>	<u>(141,457)</u>

23. Finance cost

	2009	2008
	'000 RUR	'000 RUR
Gain/(loss) on sales of investments held to maturity, net	43,980	(3,466)
Interest income	134,679	15,147
Bank charges	(58,567)	(85,686)
Interest expenses – 3 rd parties	(397,770)	(364,075)
Interest expenses - related parties	(76,552)	(315,898)
Other	(6,896)	(2,539)
<i>Finance cost, net</i>	(361,125)	(756,518)

24. Income tax

	2009	2008
	'000 RUR	'000 RUR
Income tax expense – current	(120,323)	(226,765)
Deferred tax expense – origination and reversal of temporary differences	(72,833)	(71,377)
Income tax expense	(193,156)	(298,142)

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2009		2008	
	'000 RUR	%	'000 RUR	%
Income before taxation	547,946	100	499,156	100
Theoretical tax charge at statutory rate of 20% (2008: 24%)	(109,589)	20	(119,797)	24
Expenses non-deductible for tax purposes	(83,567)	15	(66,547)	13
Effect of change in tax rate	-	-	(38,760)	8
Adjustments to current tax in respect of prior years	-	-	(73,038)	15
Income tax expense	(193,156)	35	(298,142)	60

Notes to the consolidated financial statements (continued)

24. Income tax (continued)

Deferred tax assets and liabilities are attributable to the following items:

'000 RUR	31 December 2009 <i>at 20%</i>	31 December 2008 <i>at 20%</i>	31 December 2007 <i>at 24%</i>
Assets			
Property, plant and equipment	8,761	14,085	-
Inventories	574,750	663,383	482,216
Trade and other accounts receivables	203,607	666,937	394,831
Trade and other accounts payable	301,541	186,393	11,044
Post-employments benefits	27,858	27,539	33,818
Lease liability	855	3,056	5,045
Amounts due to customers for contract work	-	63,097	226,871
	<u>1,117,373</u>	<u>1,624,489</u>	<u>1,153,826</u>
Liabilities			
Property, plant and equipment	(183,470)	(444,731)	(334,992)
Intangible assets	(9,010)	(9,582)	(1,245)
Amounts due from customers for contract work	(803,928)	(976,377)	(496,480)
Trade and other accounts payable	-	-	(55,933)
	<u>(996,407)</u>	<u>(1,430,690)</u>	<u>(888,650)</u>
Net balances			
Property, plant and equipment	(174,709)	(430,646)	(334,992)
Intangible assets	(9,010)	(9,582)	(1,245)
Inventories	574,750	663,383	482,216
Trade and other accounts receivables	203,607	666,937	394,831
Amounts due from customers for contract work	(803,928)	(976,377)	(496,480)
Trade and other accounts payable	301,541	186,393	(44,889)
Post-employments benefits	27,858	27,539	33,818
Lease liability	855	3,056	5,045
Amounts due to customers for contract work	-	63,097	226,871
	<u>120,966</u>	<u>193,799</u>	<u>265,176</u>

The statutory tax rate effective in the Russian Federation was 20% in 2009 and 24% in 2008. In November 2008, an amendment to the Tax Code was enacted to reduce corporate income tax from 24% to 20% effective from 1 January 2009, therefore deferred tax assets and liabilities were restated as at 31 December 2008.

All changes of the deferred tax were recognized in the consolidated income statement.

Most part of the deferred tax assets will be realized within 12 months after the reporting date.

25. Personnel expenses

	2009 '000 RUR	2008 '000 RUR
Wages, salaries and related taxes included in:		
Cost of sales	578,178	712,389
Selling and distribution costs	29,138	32,177
Administration expenses	852,116	825,107
	<u>1,459,432</u>	<u>1,569,674</u>

26. Significant non-cash transactions

Included in revenues are non-cash transactions amounting to RUR 26,895k (2008: RUR 666k)

Non-cash transactions have been excluded from the consolidated cash flow statement.

27. Contingencies, commitments and operating risks

Operating environment of the Group

Crisis in global markets along with some local factors resulted in high volatility in financial markets of the Russian Federation. Decrease of liquidity, increase in volatility on fixed income, equity markets, and markets of derivatives directly led to investments losses and consequent decrease in scope of loans. Notwithstanding the stability oriented policy undertaken by the government of the Russian Federation, credit markets within which the Group functions are hardly predictable and highly volatile. Increase in rates on interbank credits, global liquidity crisis in banking sector, tightening of lending conditions in the Russian Federation are the evidences of negative dynamics of credit markets. These circumstances attach conditions to ability of the Group to attract new and refund existing loans on terms applicable to the same transactions in the course of its normal business activities. The circumstances mentioned above can directly affect financial performance of the Group in future. The management of the Group considers all its efforts essential to provide stabilized business activities and improved financial position of the Group in current situation.

Taxation

Russian 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 may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, 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.

As at 31 December 2009 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Litigations

During the year, the Group was involved in a number of court proceedings as a plaintiff 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 Company.

28. Subsidiaries and business combinations

Principal subsidiaries and special purpose entity

The principal subsidiaries consolidated within the Group, and the share of voting interest held by the Group, are as follows:

Entity	Country of incorporation	Activity	2009 % share	2008 % share
<i>Subsidiaries:</i>				
PJSC Krasny Kotelschik	Russia	Production	70.84	69.63
PJSC BSKBKU	Russia	Engineering	70.00	70.00
PJSC Engineering Company				
EMAlliance	Russia	Engineering	100.00	100.00
LLC RO CKTI	Russia	Engineering	100.00	100.00
LLC EMAlliance-TEP	Russia	Engineering	100.00	100.00
Tetra Energia Technologie	Germany	Consultancy	75.96	75.96
LLC EMAlliance-Engineering	Russia	Engineering	74.85	-
LLC EMAlliance-Finance	Russia	Financing	-	-
LLC Promishlennik*	Russia	Trading	100.00	100.00
LLC Novye Tehnologicheskie Sistemy*	Russia	Production	75.00	100.00

**Subsidiaries of PJSC Krasny Kotelschik*

Incorporation of subsidiaries

LLC EMAlliance-Engineering was incorporated in 2009.

Consolidation of EMAlliance-Finance LLC

EMAlliance-Finance LLC is consolidated in the Group's financial statements according to SIC-12, as a special purpose entity established for the purpose the Group's financing.

29. Capital management

The Group's main objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide its equity growth and increase in the cost of shares/stakes for shareholders/(participants). Third parties which are influenced by the Group's activities also have their portion of benefits. The capital management process is aimed at maintenance of an optimal capital structure to reduce the cost of capital for the Group. In order to maintain the capital structure, the Group generates earnings and attracts borrowings. It may also adjust the amount of dividends paid to shareholders, issue new shares or sell part of assets to reduce or repay debts. The capital of the Group includes equity comprising share capital and share premium, reserves, including retained earnings, minority interest, and debt capital including long-term liabilities (debt). The capital managed by the Group as at 31 December 2009 amounted to RUR 4,089,526k (2008: RUR 9,561,537k).

The Group monitors the amount and structure of its capital on the basis of the gearing ratio to be consistent with other companies in the industry. This ratio is calculated as debt divided by total capital controlled by the Group. The amount of capital is entirely under the Group's management. During 2009, the gearing ratio is as follows: (31)% of equity and 131% of debt. Comparing with the year 2008 the Group increased its gearing ratio by 16% (2008: (15)% of equity and 115% of debt).

30. Financial risk management

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

The total monetary financial assets and liabilities are as follows:

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Monetary financial assets and investments available for sale		
Investments (Note 8)	1,824	80,904
Trade and other receivables (Note 9)	2,033,901	1,065,604
Cash and cash equivalents (Note 13)	616,379	3,739,946
	2,652,103	4,886,454
Monetary financial liabilities		
Borrowings (Note 14)	(3,892,522)	(3,149,989)
Finance lease (Note 14)	(4,274)	(15,282)
Trade and other payables (Note 15)	(1,576,594)	(1,508,063)
	(5,473,390)	(4,673,335)

Notes to the consolidated financial statements (continued)

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, goods, provision of services and performance of work on credit terms or origination of assets repaid in instalments.

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

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Investments		
Non-current portion of available-for-sale investments (Note 8)	1,641	1,655
Current portion of investments held-to-maturity (Note 8)	183	79,249
	1,824	80,904
Receivables		
Non-current portion of other receivables (Note 9)	274,420	508,552
Less allowance for impairment of non-current receivables	(52,181)	(50,690)
Current portion of trade and other receivables (Note 9)	2,043,789	867,282
Less allowance for impairment of current receivables	(232,127)	(259,540)
	2,033,901	1,065,604
Cash and cash equivalents (Note 13)	616,379	3,739,946
Total on-balance sheet exposure	2,936,411	5,196,685
Less allowance for impairment of assets	(284,308)	(310,231)
Total maximum exposure to credit risk	2,652,103	4,886,454

The carrying amount of financial instruments referred to above represents the maximum amount exposed to credit risk. Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables and investments available-for-sale and held-to-maturity.

The Group structures credit risk based on the probability of exposure and materiality of risk implications by determining limits of risk accepted in relation to counterparties or groups of counterparties, assessing their creditworthiness and performing respective analytical procedures with the aim to ensure that the carrying value of financial instruments is recoverable within contractual terms. Limits on the level of credit risk are approved regularly by the Group management. Such risks are monitored regularly on a revolving basis. Overdue debts and balances considered to be unrecoverable in the normal course of business are subject to detailed scrutiny and collection through legal proceedings.

Notes to the consolidated financial statements (continued)

The Group has significant concentrations of credit risk on the following essential counterparties:

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Receivables		
Non-current portion of other receivable (Note 9)		
Tehnopromeksport	252,047	222,993
BACKWARD LIMITED	-	205,799
Power Machines	22,373	52,013
Brestenergo	-	25,926
Sobinbank	-	1,822
	274,420	508,552
Current portion of trade and other receivables (Note 9)		
Tehnopromeksport	639,022	175,097
Alstom	372,857	-
BACKWARD LIMITED	247,000	-
Power Machines	163,596	-
Group E4	73,073	-
Brestenergo	69,500	72,601
FRIGIA S.A.	41,287	34,624
Rospostavka	25,182	35,402
Zio Mar	23,259	2,351
Auburn Investments Limited	12,480	29,380
KATEKenergoremont	10,986	21,971
Sobinbank	8,063	-
MMK Treiding Stroy	10	17,982
Other customers	357,474	477,872
	2,043,789	867,282

Although collection of receivables could be influenced by economic factors, the management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

Market risk comprises three types of risk: currency risk, interest rate risk and other price risks. The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities (c) equity investments and (d) commodities as being transferred into future cash flows from sales, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Notes to the consolidated financial statements (continued)

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total. The positions are monitored on a regular basis. The table below summarises the Group's exposure to foreign currency exchange rate risk at the reporting date:

'000 RUR	At 31 December 2009		
	Monetary financial assets and investments available for sale	Monetary financial liabilities	Net balance sheet position
Russian Roubles	1,039,493	(5,088,056)	(4,048,563)
US Dollars	1,205,819	(174,371)	1,031,448
Euros	406,791	(210,962)	195,828
	2,652,103	(5,473,390)	(2,821,287)

'000 RUR	At 31 December 2008		
	Monetary financial assets and investments available for sale	Monetary financial liabilities	Net balance sheet position
Russian Roubles	4,063,563	(4,341,583)	(278,020)
US Dollars	818,939	(183,711)	635,229
Euros	3,950	(148,041)	(144,091)
	4,886,452	(4,673,335)	213,110

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

Monetary financial assets at the beginning and at the end of the reporting period did not include advances issued to suppliers of raw materials.

The process of currency risk management implies the Group management's regular reviews of currency net monetary position and investments available for sale.

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied at the balance sheet date relative to the Group's functional currency (RUR), with all other variables held constant:

	2009 '000 RUR	2008 '000 RUR
<i>Impact on profit or loss of:</i>		
US Dollar appreciation by 10%	103,145	63,523
US Dollar depreciation by 10%	(103,145)	(63,523)
Euro appreciation by 10%	19,583	(14,409)
Euro depreciation by 10%	(19,583)	14,409

Notes to the consolidated financial statements (continued)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position, profit and cash flows. The table below presents the Group's financial assets and liabilities and investments available for sale at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

'000 RUR	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
31 December 2009					
Monetary financial assets and investments available for sale	2,428,224	-	222,239	1,641	2,652,103
Monetary financial liabilities	(2,552,561)	(2,436,139)	(484,690)	-	(5,473,390)
Net monetary financial assets/ (liabilities)	<u>(124,337)</u>	<u>(2,436,139)</u>	<u>(262,451)</u>	<u>1,641</u>	<u>(2,821,287)</u>
31 December 2008					
Monetary financial assets and investments available for sale	4,426,937	-	457,862	1,655	4,886,454
Monetary financial liabilities	(2,291,510)	(23,901)	(2,357,924)	-	(4,673,335)
Net monetary financial assets/ (liabilities)	<u>2,135,427</u>	<u>(23,901)</u>	<u>(1,900,062)</u>	<u>1,655</u>	<u>213,119</u>

The Group does not have formal policies and procedures in place to manage interest rate risks as management considers this risk as insignificant to the Group's business. Nevertheless, the Group monitors influence of changes in interest rates on its financial instruments. The information on nominal interest rates for financial assets and financial liabilities is disclosed in the relevant notes.

Liquidity risk. Liquidity risk is the risk that the entry will not be able to meet its financial obligations associated with financial instruments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available, raising new debts at lower rates and repaying borrowings attracted at higher interest rates, thus maintaining adequate level of current assets and decreasing financial and operational gearing. Management monitors monthly rolling forecasts of the Group's cash flows.

The table below shows financial liabilities at 31 December 2009 and 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and non-current portion of accounts payable. The discounted cash flows to be allocated for repayment of liabilities differ from carrying amount of these liabilities recorded in the consolidated balance sheet at the reporting dates. The reason is that the carrying amount is calculated under the effective interest method by discounting future cash flows.

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 into the functional currency using the exchange rate in effect at the balance sheet date.

Notes to the consolidated financial statements (continued)

The maturity analysis of financial liabilities as at 31 December 2009 and 31 December 2008 is as follows:

‘000 RUR	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
<u>Liabilities as at 31 December 2009</u>					
Borrowings (Note 14)	(1,033,422)	(3,030,338)	(704,925)	-	(4,768,685)
Finance lease (Note 14)	(1,650)	(3,400)	-	-	(5,050)
Trade and other payables (Note 15)	(1,576,594)	-	-	-	(1,576,594)
Total future payments, including principal amount net of interest	(2,611,666)	(3,033,738)	(704,925)	-	(6,350,329)
<u>Liabilities as at 31 December 2008</u>					
Borrowings (Note 14)	(840,789)	-	(3,242,648)	-	(4,083,437)
Finance lease (Note 14)	(6,807)	(12,096)	-	-	(18,903)
Trade and other payables (Note 15)	(1,486,846)	(21,217)	-	-	(1,508,063)
Total future payments, including principal amount net of interest	(2,334,442)	(33,313)	(3,242,648)	-	(5,610,404)

31. Post balance sheet events

New loans and borrowings

On February 24, 2010 the Company obtained a loan from Interkommerts bank amounting to RUR 145,000k. The loan bears interest of 19% p.a. and is repayable till 23 February 2011.

In March 2010 the Company opened a credit line from MDM bank in amount of RUR 1,950,000k at 11% p.a. repayable till 29 July 2010.

In March 2010 the Company opened a credit line from MDM bank in amount of RUR 7,500,000k at 14.8% p.a. repayable till 29 March 2011.

On April 2, 2010 the Company obtained a bank loan from Globeksbank amounting to RUR 500,000k. The loan bears interest of 13.5% p.a. and is repayable not later than on 21 December 2010.

On April 19, 2010 the Group's subsidiary PJSC Krasny Kotelschik opened a credit line from Sberbank in amount of RUR 3,523,000k at 15.5% p.a. repayable till 6 December 2010. The loans are guaranteed by Group's inventories and property, plant and equipment and expected cash receipts from customers on large contracts.

On April 30, 2010 the Company's Board of Directors approved opening a credit line from Zenit bank amounting to RUR 1,000,000k at 12.75% p.a. repayable till 28 October 2010. The loan is guaranteed by ordinary shares of the Group's subsidiary PJSC Krasny Kotelschik.

All borrowings are obtained to finance cash shortages which are possible due to long-term character of the Group's major construction contracts.

Notes to the consolidated financial statements (continued)

Listing on stock exchange

On March 31, 2010 the ordinary shares of the Company were included in the quotation list category B on the RTS Russian stock exchange.

On April 23, 2010 the Company's Board of Directors made a decision to issue 240,150,000 of ordinary shares of the Company at par value of RUR 1.

In May 2010 the Company plans to perform all actions required for the listing of the Company's ordinary shares at RTS. During the initial public offering the Company plans to place 10% to 15% of its ordinary shares.

32. Earnings before interests, taxation, depreciation and amortisation (unaudited)

Table below shows EBITDA calculation for information purposes only and was not audited.

	2009	2008
	'000 RUR	'000 RUR
	unaudited	unaudited
Revenue	9,593,100	7,437,091
Gross profit	2,669,475	2,816,171
	<i>% to revenue</i>	<i>27.8%</i>
	<i>37.9%</i>	
Net profit for the period	354,790	201,014
	<i>% to revenue</i>	<i>3.7%</i>
	<i>2.7%</i>	
(+) Income tax expense	193,156	298,142
(+) Bank charges	65,462	88,225
(+) Interest expenses	295,663	668,293
(+/-) Exchange gain/(loss), net	9,920	(110,756)
(+) Depreciation and amortisation	299,227	302,904
Total EBITDA adjustments	863,428	1,246,809
EBITDA	1,218,218	1,447,823
	<i>% to revenue</i>	<i>12.7%</i>
		<i>19.5%</i>