OAO Power Machines and subsidiaries

Consolidated financial statements
For the Year Ended December 31, 2009

OAO POWER MACHINES AND SUBSIDIARIES

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor's in relation to the consolidated financial statements of OAO "Power Machines" and its subsidiaries (the "Group").

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

In preparing the consolidated financial statements, 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.

Management 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 December 31, 2009 were approved for issue on March 26, 2010 by the Management Board.

On behalf of the Management Board:

Igor Y. Kostin
General Director

Irina V. Romanova
Chief Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OAO "Power Machines":

We have audited the accompanying consolidated financial statements of OAO "Power Machines" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2009 and the related consolidated income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of 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 the 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group'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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Deloitte & Touche

March 26, 2010

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2009
(Tabular amounts in thousands of US dollars unless otherwise stated)

	Note	2009	2008
Revenue	4	1,852,633	1,312,285
Cost of sales		(1,378,776)	(1,051,468)
Gross profit		**473,857**	**260,817**
Distribution expenses		(103,378)	(69,264)
Administrative expenses		(96,871)	(118,743)
Taxes and contributions other than income tax		(8,789)	(10,925)
Other operating income		4,906	9,770
Other operating expenses	5	(25,006)	(21,107)
Profit from operations		**244,719**	**50,548**
Share of associates' (losses)/profits		(4,623)	600
Profit before financing and taxation		**240,096**	**51,148**
Financial income	7	12,419	15,198
Financial expenses	7	(20,304)	(25,750)
Net foreign exchange (losses)/gains		(545)	17,621
Profit before income tax		**231,666**	**58,217**
Income tax (expense)/benefit	8	(38,385)	21,409
Profit for the year		**193,281**	**79,626**
Attributable to:			
Shareholders of the Parent Company		185,984	85,774
Non-controlling interests		7,297	(6,148)
		193,281	**79,626**
Weighted average number of shares outstanding during the year		8,708,938,708	8,708,938,708
Basic earnings per share (US dollars)		0.0214	0.0098

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009
(Tabular amounts in thousands of US dollars unless otherwise stated)

	2009	2008
Profit for the year	**193,281**	**79,626**
Foreign currency translation differences	191	(44,001)
Total comprehensive income for the year	**193,472**	**35,625**
Attributable to:		
Shareholders of the Parent Company	187,875	56,176
Non-controlling interests	5,597	(20,551)
	193,472	**35,625**)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2009
(Tabular amounts in thousands of US dollars unless otherwise stated)

	Note	2009	2008
Assets			
Property, plant and equipment	10	423,560	388,610
Goodwill	25	3,717	3,733
Other intangible assets	11	33,723	29,942
Investment in associates		-	4,901
Deferred tax assets	8	32,748	21,340
Trade accounts receivable	13	70,592	41,964
Other assets	14	2,319	2,935
Total non-current assets		**566,659**	**493,425**
Inventories	12	217,034	180,414
Amounts due from customers under construction contracts	9	908,645	715,679
Trade accounts receivable	13	267,103	137,550
Advances paid to suppliers		227,346	302,320
Advances paid to related parties		19,363	96,918
Other assets	14	28,450	47,727
VAT recoverable		67,731	76,201
Short-term bank deposits		5,088	786
Cash and cash equivalents	15	323,689	328,281
Total current assets		**2,064,449**	**1,885,876**
Total assets		**2,631,108**	**2,379,301**
Equity			
Issued capital	16	11,141	11,141
Additional paid-in capital	16	399,877	393,358
Foreign currency translation reserve		29,058	27,167
Accumulated deficit		(62,105)	(248,089)
Total equity attributable to shareholders of the Parent Company		**377,971**	**183,577**
Non-controlling interests		50,128	55,550
Total equity		**428,099**	**239,127**
Liabilities			
Debt finance	17	26,041	20,448
Deferred tax liabilities	8	10,764	13,575
Other liabilities	21	1,609	4,499
Total non-current liabilities		**38,414**	**38,522**
Debt finance	17	44,641	112,458
Trade accounts payable	19	130,271	89,669
Amounts due to customers under construction contracts	9	24,582	14,715
Trade and other accounts payable to related parties	20	26,892	9,460
Advances received from customers	18	1,730,042	1,639,198
Taxes and social security payable		15,788	13,776
Other liabilities	21	48,996	40,351
Provisions for contingencies	22	143,383	182,025
Total current liabilities		**2,164,595**	**2,101,652**
Total equity and liabilities		**2,631,108**	**2,379,301**

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Tabular amounts in thousands of US dollars unless otherwise stated)

	2009	2008
Cash flows from operating activities		
Profit before financing and taxation	240,096	51,148
Adjustments for:		
Depreciation and amortization	48,303	53,691
Change in provision for doubtful trade and other accounts receivable	12,390	218
Change in provision for obsolete inventories	30,932	3,578
Change in provisions for contingencies	(33,009)	(20,308)
Share of associates' (losses)/profits	4,623	(600)
Other	6,925	3,306
Operating profit before changes in working capital	**310,260**	**91,033**
Changes in operating assets and liabilities:		
Inventories	(57,938)	(11,616)
Amounts due from customers under construction contracts	(189,164)	(477,366)
Trade accounts receivable	(148,034)	81,177
Advances paid to suppliers	75,121	(190,632)
Advances paid to related parties	71,146	(20,180)
VAT recoverable	7,397	(39,535)
Trade accounts payable	36,665	(126,040)
Amounts due to customers under construction contracts	8,424	3,876
Trade and other accounts payable to related parties	18,519	(5,810)
Advances received from customers	114,457	1,223,954
Taxes and social security payable	1,973	10,700
Other non-current assets and liabilities	(31,031)	(14,043)
Other operating assets and liabilities	10,985	(68,117)
Cash flows from operations before income tax and interest paid	**228,780**	**457,401**
Interest paid	(6,784)	(9,155)
Income tax (paid)/reimbursed from budget	(53,349)	9,145
Cash flows generated by operating activities	**168,647**	**457,391**
Investing activities:		
Additions to property, plant and equipment and intangible assets	(100,726)	(93,320)
Net cash flow from deposits	(5,154)	(319)
Acquisition of subsidiaries, net of cash acquired (note 25)	-	(51,517)
Acquisition of non-controlling interests (note 25)	(4,500)	-
Proceeds from disposal of property, plant and equipment and other assets	941	1,562
Interest received	10,693	15,198
Cash flows used in investing activities	**(98,746)**	**(128,396)**
Financing activities:		
Proceeds from debt finance	220,760	327,729
Repayment of debt finance	(280,435)	(378,722)
Cash flows used in financing activities	**(59,675)**	**(50,993)**
Effect of exchange rates on cash and cash equivalents	(14,818)	(52,975)
Net (decrease)/increase in cash and cash equivalents	(4,592)	225,028
Cash and cash equivalents at beginning of the year	328,281	103,253
Cash and cash equivalents at end of the year	**323,689**	**328,281**

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2009
(Tabular amounts in thousands of US dollars unless otherwise stated)

	Ordinary shares	Additional paid-in capital	Foreign currency translation reserve	Accumulated deficit	Total attributable to shareholders of the Parent Company	Non-controlling interests	Total equity
Balances at January 1, 2008	**11,141**	**393,358**	**56,765**	**(333,863)**	**127,401**	**1,238**	**128,639**
Profit for the year	-	-	-	85,774	85,774	(6,148)	79,626
Foreign currency translation differences	-	-	(29,598)	-	(29,598)	(14,403)	(44,001)
Total recognized income and expenses	-	-	(29,598)	85,774	56,176	(20,551)	35,625
Business combination (note 25)	-	-	-	-	-	79,578	79,578
Acquisition of non-controlling interests (note 25)	-	-	-	-	-	(4,715)	(4,715)
Balances at 31 December, 2008	**11,141**	**393,358**	**27,167**	**(248,089)**	**183,577**	**55,550**	**239,127**
Profit for the period	-	-	-	185,984	185,984	7,297	193,281
Foreign currency translation differences	-	-	1,891	-	1,891	(1,700)	191
Total recognized income and expenses	-	-	1,891	185,984	187,875	5,597	193,472
Acquisition of non-controlling interests (note 25)	-	6,519	-	-	6,519	(11,019)	(4,500)
Balances at 31 December, 2009	**11,141**	**399,877**	**29,058**	**(62,105)**	**377,971**	**50,128**	**428,099**

1. ORGANISATION AND OPERATIONS

The consolidated financial statements of OAO Power Machines comprise OAO Power Machines (the "Parent Company") and its subsidiaries (the "Group"). The Parent Company is an open joint stock company as defined in the Civil Code of the Russian Federation, and is domiciled in the Russian Federation its registered office is at 3 Lit. A, Vatutina street, St. Petersburg, the Russian Federation.

The Company was established as a state-owned enterprise in 1966. It was incorporated as a closed joint stock company on June 21, 1991, then as part of the Russian Federation privatization program it was converted to an open joint stock company on June 28, 2002. The principal activity of the Group is focused on power and automation technologies, which include the manufacture of turbines, generators and other energy-generating equipment at plants located in Russia at St. Petersburg and Kaluga. Leningradskiy Metallicheskiy Zavod, Electrosila and Zavod Turbinnych Lopatok are branches of the Parent Company. During 2008 the Group acquired a controlling interest in OAO Kaluzhsky Turbinny Zavod ("KTZ") (note 25). The Group's products are sold in the Russian Federation and abroad. The Group participates in international and national tenders for the supply, installation and manufacture of energy-generating equipment.

At the reporting date the largest immediate shareholders of the Parent Company are Highstat Ltd. (70%) and Siemens AG (25%). The ultimate controlling shareholder of Highstat Ltd. is Mr. Alexey A. Mordashov.

2. BASIS OF PREPARATION

Statement of compliance

The official financial statements of the Parent Company are prepared in accordance with the legislative requirements of the Russian Federation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), under the historic cost convention, except for: investments in associates, which are accounted for using the equity participation method.
The Group's statutory financial records are maintained in accordance with the legislative requirements of the countries in which the individual entities are located, which differ in certain respects from IFRS. Consequently, those statutory financial statements have been restated according to International Financial Reporting Standards for the purpose of preparing these consolidated financial statements. The accounting policies consistently applied in the preparation of these consolidated financial statements are set out in note 3.

Going concern basis

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("rouble" or "RUB"). The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The rouble is the functional currency of the Parent Company and all its subsidiaries except for those foreign ones that operate with a significant degree of autonomy.

Transactions in currencies other than the Group entities' functional currency (foreign currencies) are recorded at the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

These consolidated financial statements are presented in US dollars ("US$") since management believes that this currency is more useful for the users of the consolidated financial statements.

The translation from the functional currency into presentation currency has been performed as follows:

- All assets and liabilities are translated at closing exchange rates at the dates of each statement of financial position presented;
- All income and expenses in each income statement are translated at the average exchange rates for the periods presented that approximate the actual exchange rates existing at the dates of the transactions; and
- All resulting exchange differences are recognized directly in equity attributable to Parent Company shareholders as foreign currency translation reserve.

The rouble is not a readily convertible currency outside the Russian Federation and, accordingly, any conversion of roubles to US dollars should not be construed as a representation that the rouble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rates disclosed, or at any other exchange rates.

Current assets and liabilities

A significant portion of the Group's operating cycle, namely construction activities, exceeds one year. For classification of current assets and liabilities related to these types of construction activities, the Group elected to use the duration of the individual contracts as its operating cycle.

Accordingly, there are amounts due to/from customers under construction contracts, inventories, accounts payable and provisions related to these contracts, which will not be realized within one year, that have been classified as current.

Use of estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Due to the inherent uncertainty involved in making such estimates, actual results could differ from those estimates.

(Tabular amounts in thousands of US dollars unless otherwise stated)

Information and analysis concerning significant estimates, uncertainties and judgments in applying accounting policies is given in the following notes:

- Note 9 – accounting for construction contracts;
- Note 10 – useful lives of property, plant and equipment;
- Note 11 – useful lives of intangible assets;
- Note 12 – provision for obsolete inventories;
- Note 13 – impairment of trade accounts receivable;
- Note 22 – provisions for contingencies;
- Note 27 – commitments and contingencies.

Statement of cash flows

The consolidated statement of cash flows has been prepared using the indirect method, whereby net cash provided from operating activities of the year has been adjusted for non-monetary transactions, all deferred or accrued payments as well as all revenue and cost amounts related to investing or financing activities.

Prior year reclassifications

Certain comparative information, presented in consolidated financial statements for the year ended December 31, 2008 has been reclassified. Reclassifications were based upon management's decision to enhance disclosure of the Group's results of operations and financial position through better presentation of certain types of income and expenses on the face of the consolidated income statement, revision of titles and/or disaggregation of certain line items on the face of the consolidated statement of financial position into line items previously presented separately in the notes to consolidated financial statements. The effect of reclassifications is presented below:

	Before reclassification	After reclassification	Difference
Income statement:			
Cost of sales	(1,013,878)	(1,051,468)	(37,590)
Distribution expenses	(67,642)	(69,264)	(1,622)
Administrative expenses	(165,302)	(118,743)	46,559
Taxes and contributions	-	(10,925)	(10,925)
Other operating income	15,134	9,770	(5,364)
Other operating expenses	(30,049)	(21,107)	8,942
			-

	Before reclassification	After reclassification	Difference
Statement of financial position:			
Current assets			
Trade and other receivables	1,376,540	-	1,376,540
Amounts due from customers under construction contracts	-	715,679	(715,679)
Trade accounts receivable	-	137,550	(137,550)
Advances paid to suppliers	-	302,320	(302,320)
Advances paid to related parties	-	96,918	(96,918)
Other assets	641	47,727	(47,086)
VAT recoverable	-	76,201	(76,201)
Short-term bank deposits	-	786	(786)
Total			**-**
Current liabilities			
Trade and other payables	1,807,169	-	1,807,169
Trade accounts payable	-	89,669	(89,669)
Amounts due to customers under construction contracts	-	14,715	(14,715)
Trade and other payables to related parties	-	9,460	(9,460)
Advances received from customers	-	1,639,198	(1,639,198)
Taxes and social security payable	-	13,776	(13,776)
Other liabilities	-	40,351	(40,351)
Total			**-**

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied in the preparation of these consolidated financial statements throughout the Group.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled, directly or indirectly, by the Parent Company.
The financial statements of subsidiaries are included in these consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The non-controlling interests (previously referred to as ‘minority’ interests) represent the proportion of the net identifiable assets of the subsidiaries that are not attributable to the shareholders of the Parent Company.

Associates

Associated companies are those enterprises in which the Group has significant influence, but does not have control over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associated companies accounted for on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the carrying amount of the associated company, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associated company.

Transactions eliminated on consolidation

Intra-group balances and transactions, which are conducted at open market prices and any unrealized gains arising from intra-group transactions are eliminated in preparing these consolidated financial statements.

Property, plant and equipment

Owned assets

On the first time adoption of IFRS at January 1, 2002 the Group elected to use the fair value of certain items of property, plant and equipment as "deemed cost". Therefore, the historic cost of owned property, plant and equipment comprises deemed cost at January 1, 2002 plus additions at historic cost since that date, with adjustments for hyperinflation that existed in the Russian Federation prior to January 1, 2003.

Property, plant and equipment is stated at cost, as described above, less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if a future economic benefit will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognized in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date when an asset is ready for its intended use. Land is not depreciated. The estimated useful lives are as follows:

- Buildings 30 - 90 years;
- Machinery and equipment 15 - 30 years;
- Transportation equipment 5 - 18 years;
- Other 4 - 25 years.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

Intangible assets

Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the income statement as an expense when incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads. Other development expenditure is recognized in the income statement as an expense when incurred. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses.

Other intangible assets

Other intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses. Expenditure on internally generated goodwill and brands is recognized in the income statement as an expense when incurred.

Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives are as follows:

- Development projects 7 years;
- Other intangible assets 2 - 15 years.

Financial assets

Financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract that terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (“FVTPL”), held-to-maturity investments, available-for-sale (“AFS”) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Held-to-maturity investments

Short-term deposits are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Trade and other receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as receivables. They are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Retentions under long-term contracts are recognized as non-current assets where appropriate.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For all financial assets objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becomes probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments as well as observable changes in relevant economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what its the amortized cost would have been had the impairment never been recognized.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is calculated on the weighted average basis or using the specific identification method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Provisions are recorded against slow moving and obsolete inventories.

Cash and cash equivalents

Cash and cash equivalents are all highly liquid temporary cash investments with original maturity dates of three months or less.

Impairment

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Calculation of recoverable amount

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.
A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The recoverable amount of the Group's held-to-maturity investments and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables and investments with a short duration are not discounted.

Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, as if the impairment loss had never been recognized.

Financial liabilities

Financial liabilities, including loans and borrowings, trade and other payables, are initially measured at fair value, net of transaction costs. They are then subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The difference between cost and redemption value is recognized in the consolidated income statement over the period of the borrowings on an effective interest basis. Borrowing costs on loans received specifically for the purchase or construction of property, plant and equipment are capitalized as part of the cost of the asset they are financing.

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

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Leases

Finance leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. The corresponding liability to the lessor is included in the reporting as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the outstanding balance of the liability. Finance charges are charged directly to the income statement.

Operating leases

Leases under which the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognized in the statement of income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized in the income statement as an integral part of the total lease payments made.

Employee benefits

The Group does not provide separate post employment benefits for its employees. However, contained within the statutory social insurance contributions calculated on the gross salaries of its employees, the Group makes contributions on their behalf to the State Pension Fund of the Russian Federation. These contributions are expensed when employees have rendered services.

Provisions

A provision is recognized in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect 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.

Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical data of warranty costs and a weighting of all possible outcomes against their associated probabilities.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Government grants

Government grants are recognized in the statement of financial position initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Grants that compensate the Group for expenses incurred are recognized as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized in the income statement as other operating income on a systematic basis over the useful life of the related asset.

Revenue

Goods sold and services rendered

Revenue from sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the contracted services at the reporting date. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or possible return of goods or when substantially all risks and rewards of ownership are not transferred to the buyer.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the reporting date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

All revenue is stated net of taxes and discounts.

Amounts recoverable on construction contracts are stated at cost plus profit less loss recognized to date and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. Advances received are recognized as revenue when the related works are performed and in accordance with the revenue recognition policy disclosed below.

Expenses

Agents' fees

The Group pays fees to agents to secure and facilitate the operation of contracts in the Russian Federation and overseas. Such payments are deferred and charged to the income statement as distribution expenses over the duration of the contract to which they relate.

Social costs

The Group only makes contributions to social programs that benefit the community at large and are not restricted to the Group's employees; consequently they are recognized as expenses in the income statement as incurred.

Financial income and expenses

Financial income and expenses comprise interest expense on borrowings, interest income on funds invested; dividend income (except for dividends from equity associates); foreign exchange gains and losses; gains and losses on disposal of securities; and the restatement of financial assets to fair values.

All interest and other costs incurred in connection with borrowings which are not directly attributable to the acquisition, construction or production of qualifying assets, are expensed as incurred as part of financial expenses.

Interest is recognized as it is accrued, taking into account the effective yield on the asset or liability. Dividend income is recognized in the income statement on the date that the dividend is declared.

Income tax

Income tax for the year is comprised of current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is calculated by each entity on its taxable income determined in accordance with the tax laws of the countries in which they operate using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which these assets can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is not recognized in respect of the following:

- Investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not be reversed in the foreseeable future;
- If it arises from the initial recognition of an asset or liability that affects neither accounting nor taxable profit; and
- Initial recognition of goodwill.

Earnings/(loss) per share

The earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Segment reporting

The Group designs, manufactures, buys and sells energy generating equipment to final customers or intermediaries primarily on a turn key basis. The Group's manufacturing operations are all based in Russia. The Group performs sales within and outside Russia. The Group identified the segment in accordance with the criteria set forth in IFRS 8 *Operating segments* and based on the way the operations of the Group are regularly reviewed by the chief operating decision-maker to analyze performance and allocate resources among business units of the Group.

The chief operating decision-maker has been determined as the Management Board. The Management Board reviews the Group's budgets of profit or loss, internal reporting on operating results of individual construction contracts, in order to assess performance and allocate resources. Although the Group designs, supplies and services a complete range of energy generating equipment, the Management Board does not regularly review the Group's operating results for the purpose of allocation of resources based on the types of products or by geographical location of customers. Therefore, the Group considers that it has only one reportable segment under IFRS 8.

Adoption of new and revised standards and interpretations

In the current year, the Group has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2009:

- IAS 1 (Revised) *Presentation of Financial Statements*;
- IAS 23 (Revised) *Borrowing Costs*;
- Amendment to IAS 32 *Financial Instruments: Presentation*;
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement*;
- Amendment to IFRS 2 *Share-based Payment*;
- Amendment to IFRS 7 *Financial Instruments: Disclosures*;
- IFRS 8 *Operating Segments*;
- 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*.

The first time application of aforementioned amendments to standards from January 1, 2009 had no material effect on the financial statements of the Group for the year ended December 31, 2009 except for IAS 1 (as revised in 2007) *Presentation of Financial Statements*. The revised standard has introduced a number of terminology changes (including revised titles for the consolidated financial statements) and has resulted in a number of changes in presentation and disclosures. However, the revised standard has had no impact on the reported results or financial position of the Group.

Early adoption of revised standards

IFRS 3 (as revised in 2008) Business Combinations

In accordance with the transitional provisions of IFRS 3 (2008) *Business Combinations*, that Standard has been applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The impact of IFRS 3 (2008) has been:

- To change the basis of measurement of goodwill recognized in respect of the business combination occurring in the period so that it now reflects the impact of (i) the difference between the fair value of non-controlling interests and their share of the identifiable net assets of the acquiree where the fair value measurement option for non-controlling interests has been adopted, and (ii) the difference between the fair value of previously-held equity interests in the acquiree and their carrying amount;
- To allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests;
- To change the recognition and subsequent accounting requirements for contingent consideration;
- To change the basis for allocating a portion of the purchase consideration in a business combination to replacement share-based payment awards granted at the time of the combination;
- To require that acquisition-related costs be accounted for separately from the business combination, generally leading to those costs being expensed when incurred; and
- For business combinations achieved in stages, to require reclassification from equity to profit or loss at the date of acquisition of amounts related to previously-held interests in the acquiree.

The revised Standard did not affect the accounting for business combinations in current or prior periods. The revised Standard is expected to affect the accounting for business combinations in future accounting periods, but the impact will only be determined once the details of future business combination transactions are known.

IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

IAS 27 (2008) *Consolidated and Separate Financial Statements* has been adopted for periods beginning on or after January 1, 2009. The revised Standard has been applied prospectively in accordance with the relevant transitional provisions.

The revised Standard has resulted in a change in accounting policy regarding increases or decreases in the Group's ownership interests in its subsidiaries. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized where appropriate. The impact of decreases in interests in existing subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognized in profit or loss. Under IAS 27 (2008), these treatments are no longer acceptable. All increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

(Tabular amounts in thousands of US dollars unless otherwise stated)

In respect of the acquisition during the year ended December 31, 2009 of the part of non-controlling interests in KTZ (note 25), the impact of the change in policy has been that the difference of US$ 6,519 thousand between the fair value of consideration paid and the transfer between the Parent Company's equity and non-controlling interests, in terms of existing carrying amount, has been recognized directly in equity. It was not practicable to determine the results of the change in the accounting policy for each financial statement line item affected and earnings per share information as the cost to develop such information would be excessive.

New accounting pronouncements

At the date of approval of the Group's 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**
IAS 1 (Amended) *Presentation of Financial Statements*	July 1, 2009 and January 1, 2010
IAS 7 (Amended) *Statement of cash flows*	July 1, 2009 and January 1, 2010
IAS 12 (Amended) *Income taxes*	July 1, 2009
IAS 16 (Amended) *Property, Plant and Equipment*	July 1, 2009
IAS 17 (Amended) *Leases*	January 1, 2010
IAS 21 (Amended) *The effects of changes in foreign exchange rates*	July 1, 2009
IAS 24 (Revised) *Related party disclosure*	January 1, 2011
IAS 31 (Amended) *Interests in Joint Ventures*	July 1, 2009
IAS 32 (Amended) *Financial instruments: Presentation*	July 1, 2009 and February 1, 2010
IAS 34 (Amended) *Interim financial reporting*	July 1, 2009
IAS 36 (Amended) *Impairment of Assets*	July 1, 2009 and January 1, 2010
IAS 38 (Amended) *Intangible Assets*	July 1, 2009
IAS 39 (Amended) *Financial Instruments: Recognition and Measurement*	July 1, 2009 and January 1, 2010
IFRS 1 (Revised, amended) *First-time Adoption of International Financial Reporting Standards*	July 1, 2009, January 1, 2010 and July 1, 2010
IFRS 2 (Amended) *Share-based Payment*	July 1, 2009 and January 1, 2010
IFRS 5 (Amended) *Non-current Assets Held for Sale and Discontinued Operations*	July 1, 2009 and January 1, 2010
IFRS 7 (Amended) *Financial instruments: disclosures*	July 1, 2009
IFRS 8 (Amended) *Operating Segments*	January 1, 2010
IFRS 9 *Financial instruments*	January 1, 2013
IFRIC 9 *Reassessment of Embedded Derivatives*	July 1, 2009
IFRIC 14 *Prepayments of a Minimum Funding Requirement*	January 1, 2011
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	July 1, 2009
IFRIC 17 *Distributions of Non-cash Assets to Owners*	July 1, 2009
IFRIC 18 *Transfers of assets from customers*	July 1, 2009
IFRIC 19 *Extinguishing financial liabilities with equity*	July 1, 2010

The impact of adoption of these Standards and Interpretations in the preparation of consolidated financial statements in the future periods is currently being assessed by the Group's management.

(Tabular amounts in thousands of US dollars unless otherwise stated)

4. REVENUE

	2009	2008
Construction contract revenue	1,202,951	1,137,428
Sales of goods	568,913	114,216
Rendering services	62,212	51,525
Other	18,557	9,116
	1,852,633	**1,312,285**

	2009	2008
Russia	1,473,245	935,771
Europe	143,754	103,526
India	124,403	137,276
Central and South America	76,531	14,154
China and Central Asia	16,456	73,871
South-East Asia	10,756	34,899
Other	7,488	12,788
	1,852,633	**1,312,285**

5. OTHER OPERATING EXPENSES

	2009	2008
Increase in provision for accounts receivable	12,390	218
Increase in provision for warranty expenses	2,178	4,318
Social costs	4,752	5,994
Other	5,686	10,577
	25,006	**21,107**

6. STAFF COSTS

	2009	2008
Wages, salaries and related taxes included in:		
cost of sales	165,678	205,275
administrative expenses	53,958	74,497
distribution expenses	25,462	24,008
	245,098	**303,780**

Included in the above employment costs are amounts paid to key management personnel during 2009 of US$ 6.0 million (2008: US$ 7.1 million). Key management personnel do not receive any benefits not also available to other employees of the Group.

The average number of employees for the year ended December 31, 2009 was 18,061 (2008: 18,759).

(Tabular amounts in thousands of US dollars unless otherwise stated)

7. FINANCIAL INCOME AND EXPENSES

	2009	2008
Financial income		
Interest income	12,419	15,198
	12,419	**15,198**
Financial expenses		
Interest expense	7,403	11,853
Bank guarantee expenses	8,380	7,963
Bank charges	4,521	5,934
	20,304	**25,750**

8. INCOME TAX EXPENSE/(BENEFIT)

The total charge for the year can be reconciled to the accounting profit as follows:

	2009	2008
Current tax expense	53,220	9,336
Deferred tax benefit	(14,835)	(30,745)
	38,385	**(21,409)**

The statutory tax rate effective in the Russian Federation was 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 January 1, 2009.

The taxation charge for the year is different from that which would be obtained by applying the Parent Company’s statutory income tax rate to the profit before income tax. Below is a reconciliation of theoretical income tax at statutory rate to the actual expense/(benefit) recorded in the consolidated income statement:

	2009	2008
Profit before income tax	231,666	58,217
Statutory income tax rate	20%	24%
Income tax expense at the statutory rate	46,333	13,972
Non-deductible expenses	2,772	4,559
Change in valuation allowance	(2,148)	(47,796)
Effect of tax concessions	(8,572)	-
Effect of change in tax rate	-	7,856
Income tax expense/(benefit)	**38,385**	**(21,409)**

(Tabular amounts in thousands of US dollars unless otherwise stated)

The tax effect of temporary differences that give rise to deferred taxation is presented below:

	2009	2008
Deferred tax assets		
Provisions	31,804	37,363
Inventories	30,328	19,806
Trade and other accounts receivable	-	8,847
Trade and other accounts payable	20,424	5,632
	82,556	**71,648**
Less: valuation allowance	(25,768)	(29,204)
Less: offset against deferred tax liabilities	(24,040)	(21,104)
	32,748	**21,340**
Deferred tax liabilities		
Property, plant and equipment	(25,826)	(29,536)
Intangible assets	(5,445)	(5,029)
Trade and other accounts receivable	(3,533)	(114)
	(34,804)	**(34,679)**
Less: offset against deferred tax assets	24,040	21,104
	(10,764)	**(13,575)**
Net deferred tax assets	**21,984**	**7,765**

Movement in deferred income tax for the year was as follows:

	2009	2008
Opening balance	**7,765**	**-**
Benefit recognized during the year	14,835	30,745
Business combination (note 25)	-	(26,101)
Foreign exchange (loss)/gain	(616)	3,121
Closing balance	**21,984**	**7,765**

At the reporting date, temporary differences that have not been provided for related to investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not be reversed in the foreseeable future amounted to US$ 7.5 million, unaudited (2008: US$ 5.1 million, unaudited).

9. CONSTRUCTION CONTRACTS

Contracts in progress at the reporting date:

	2009	2008
Construction costs incurred plus recognized profits less recognized losses	2,648,840	2,156,279
Progress billings	(1,764,777)	(1,455,315)
	884,063	**700,964**

Recognized and included in the financial statements as amounts due:

(Tabular amounts in thousands of US dollars unless otherwise stated)

	2009	2008
From customers under construction contracts	908,645	715,679
To customers under construction contracts	(24,582)	(14,715)
	884,063	**700,964**

Accounting for long-term construction contracts requires estimates of work completed, outstanding work to be undertaken, future costs to complete and the likelihood of being compensated for unplanned costs. Such estimates are inherently difficult to make and as such they may have a material impact on current and future results of the Group.

10. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment are as follows:

	Land and buildings	Machinery and equipment	Transportation equipment	Other	Assets under construction	Total
Cost						
At January 1, 2008	407,970	848,197	18,658	63,652	35,952	1,374,429
Additions	472	25,327	1,417	177	44,649	72,042
Business combination (note 25)	98,698	41,016	1,344	271	3,782	145,111
Transfers	6,447	23,285	1,201	10,043	(40,976)	-
Disposals	(331)	(11,175)	(1,083)	(1,843)	(105)	(14,537)
Foreign currency translation difference	(87,552)	(152,938)	(3,619)	(11,874)	(4,173)	(260,156)
At December 31, 2008	**425,704**	**773,712**	**17,918**	**60,426**	**39,129**	**1,316,889**
Additions	455	20,865	228	-	69,537	91,085
Transfers	3,354	44,932	234	7,871	(56,391)	-
Disposals	(116)	(9,053)	(2,603)	(1,676)	(3,290)	(16,738)
Foreign currency translation difference	(12,142)	(19,900)	(545)	(1,892)	768	(33,711)
At December 31, 2009	**417,255**	**810,556**	**15,232**	**64,729**	**49,753**	**1,357,525**
Depreciation						
At January 1, 2008	(321,067)	(699,753)	(15,719)	(38,262)	-	(1,074,801)
Charge for the year	(7,090)	(30,767)	(2,059)	(7,143)	-	(47,059)
Disposals	153	10,654	1,107	1,029	-	12,943
Foreign currency translation difference	53,719	117,030	2,766	7,123	-	180,638
At December 31, 2008	**(274,285)**	**(602,836)**	**(13,905)**	**(37,253)**	**-**	**(928,279)**
Charge for the year	(6,093)	(28,842)	(1,206)	(6,492)	-	(42,633)
Disposals	44	8,172	2,175	1,485	-	11,876
Foreign currency translation difference	7,321	16,197	445	1,108	-	25,071
At December 31, 2009	**(273,013)**	**(607,309)**	**(12,491)**	**(41,152)**	**-**	**(933,965)**
Net book value						
At December 31, 2008	**151,419**	**170,876**	**4,013**	**23,173**	**39,129**	**388,610**
At December 31, 2009	**144,242**	**203,247**	**2,741**	**23,577**	**49,753**	**423,560**

(Tabular amounts in thousands of US dollars unless otherwise stated)

Within the category "Land and buildings" above the carrying value of land is US$ 3.9 million (2008: US$ 3.5 million).

At the reporting date property, plant and equipment with a carrying amount of US$ 45.6 million (2008: US$ 56.3 million) have been pledged to secure borrowings of the Group (note 17).

The Group assesses the remaining useful lives of items of property, plant and equipment regularly, and, if expectations differ from previous estimates, these changes in estimates are accounted for in accordance with IAS 8 *Accounting policies, Changes in accounting Estimates and Errors*. These estimates may have a material impact on the carrying values of property, plant and equipment and on depreciation expense for the period.

Leased machinery

The Group leases production equipment and vehicles under a number of finance lease agreements. As at December 31, 2009 the net carrying amount of leased machinery and transportation equipment was US$ 5.5 million (2008: US$ 8.9 million).

11. OTHER INTANGIBLE ASSETS

The movements in intangible assets are as follows:

	Development projects		Other	
	Completed	**In process**	**intangible assets**	**Total**
Cost				
At January 1, 2008	**25,726**	**11,883**	**15,545**	**53,154**
Additions	653	7,500	1,150	9,303
Business combination (note 25)	-	-	1,629	1,629
Transfers	1,631	(2,977)	1,346	-
Disposals	(313)	-	(128)	(441)
Foreign currency translation difference	(4,211)	(2,120)	(3,974)	(10,305)
At December 31, 2008	**23,486**	**14,286**	**15,568**	**53,340**
Additions	965	5,750	4,268	10,983
Transfers	2,549	(2,889)	340	-
Disposals	(5,954)	(652)	(711)	(7,317)
Foreign currency translation difference	(799)	(315)	(278)	(1,392)
At December 31, 2009	**20,247**	**16,180**	**19,187**	**55,614**
Amortization				
At January 1, 2008	**(14,719)**	**-**	**(7,353)**	**(22,072)**
Charge for the year	(4,804)	-	(1,828)	(6,632)
Disposals	312	-	94	406
Foreign currency translation difference	3,398	-	1,502	4,900
At December 31, 2008	**(15,813)**	**-**	**(7,585)**	**(23,398)**
Charge for the year	(3,316)	-	(2,354)	(5,670)
Disposals	5,954	-	639	6,593
Foreign currency translation difference	583	-	1	584
At December 31, 2009	**(12,592)**	**-**	**(9,299)**	**(21,891)**
Net book value				
At December 31, 2008	**7,673**	**14,286**	**7,983**	**29,942**
At December 31, 2009	**7,655**	**16,180**	**9,888**	**33,723**

(Tabular amounts in thousands of US dollars unless otherwise stated)

The total amount of research and development expenditure recognized as an expense during 2009 was US$ 0.7 million (2008: US$ 2.1 million).

The Group assesses the remaining useful lives of intangible assets regularly, and, if expectations differ from previous estimates, these changes in estimates are accounted for in accordance with IAS 8 *Accounting policies, Changes in accounting Estimates and Errors*. These estimates may have a material impact on the carrying values intangible assets and of amortization expense for the period.

12. INVENTORIES

	2009	2008
Raw materials and consumables	79,897	82,243
Work in progress	61,584	67,808
Finished goods and goods for resale	114,611	53,669
Supplies	23,033	10,506
	279,125	214,226
Provision for obsolete inventories	(62,091)	(33,812)
	217,034	**180,414**

The Group makes provisions for obsolete and slow moving inventories. In addition certain finished goods are carried at net realizable value. Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the reporting date to the extent that they confirm conditions existing at the end of the year.

The movement in the inventory obsolescence provision was:

	2009	2008
Opening balance	**(33,812)**	**(33,425)**
Change in provision recognized in income statement	(30,932)	(3,578)
Amounts written off against provisions	3,048	1,592
Business combination	-	(4,162)
Foreign currency translation difference	(395)	5,761
Closing balance	**(62,091)**	**(33,812)**

Cost of inventories recognized as an expense during 2009 was US$ 1,075.6 million (2008: US$ 688.9 million).

(Tabular amounts in thousands of US dollars unless otherwise stated)

13. TRADE ACCOUNTS RECEIVABLE

	2009	2008
Current		
Contract retentions billed to customers	87,232	11,839
Other trade accounts receivable	193,447	130,511
Impairment provision for doubtful trade accounts receivable	(13,576)	(4,800)
	267,103	**137,550**
Non-current		
Contract retentions billed to customers	50,856	22,529
Other trade accounts receivable	19,736	19,435
	70,592	**41,964**
	337,695	**179,514**

The Group makes impairment provisions for doubtful accounts to reflect estimates of losses in respect of customers having difficulties paying the amounts due. When evaluating the adequacy of the impairment provisions management considers: economic conditions, aging of outstanding receivables, past experience and customer credit worthiness.

As discussed in note 27, as a result of recent economic turmoil in capital and credit markets globally and the consequential economic uncertainties existing at December 31, 2009, there exists the potential that assets may be not recovered at their carrying amount in the ordinary course of business. The recoverability of accounts receivable depends to a large extent on the efficacy of the fiscal and other measures as well as other actions, beyond the Group's control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the Group's accounts receivable is determined based on conditions prevailing at December 31, 2009.

The carrying value of trade accounts receivable approximates their fair value. For non-current receivables the expected future principal and interest cash flows were discounted at rates between 8% and 15%.

The movement in impairment provision for doubtful trade accounts receivable is:

	2009	2008
Opening balance	**(4,800)**	**(5,821)**
Change in provision recognized in income statement	(9,337)	(1,568)
Amounts written off against provisions	812	1,678
Foreign currency translation difference	(2`51)	911
Closing balance	**(13,576)**	**(4,800)**

Trade accounts receivable are denominated in the following currencies:

	2009	2008
Roubles	186,647	79,771
US dollars	98,546	70,929
Euros	43,785	15,995
Other	8,717	12,819
	337,695	**179,514**

(Tabular amounts in thousands of US dollars unless otherwise stated)

The following is the analysis of net trade accounts receivable:

	Number of customers		Trade accounts receivable	
Due from individual customer	**2009**	**2008**	**2009**	**2008**
0-10,000	244	363	97,224	104,322
10,000-20,000	8	2	119,355	30,121
20,000-100,000	4	2	121,116	45,071
			337,695	**179,514**

	Number of customers		Trade accounts receivable	
Region	**2009**	**2008**	**2009**	**2008**
Russia	9	3	186,708	56,776
India	1	-	21,197	-
Vietnam	1	1	21,107	18,416
Serbia	1	-	11,459	-
Other (each individual balance 0-10,000)	244	363	97,224	104,332
			337,695	**179,514**

Included in the Group's trade accounts receivable at the reporting date are debtors, which are past due at the reporting date and not provided for because there has not been any significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral against these outstanding balances. Impairment provisions are made when management is aware of specific problems with recovery of amounts due.

The aging of trade accounts receivable at the reporting date was:

	2009		2008	
	Gross	**Impairment**	**Gross**	**Impairment**
Not past due	299,397	(3,775)	174,392	(471)
Past due 0-30 days	8,669	(1)	6	(6)
Past due 31-90 days	7,474	-	26	(4)
Past due 91-180 days	13,313	(140)	5,571	-
Past due 181-365 days	13,170	(4,793)	-	-
Past due more than 365 days	9,248	(4,867)	4,319	(4,319)
	351,271	**(13,576)**	**184,314**	**(4,800)**

(Tabular amounts in thousands of US dollars unless otherwise stated)

14. OTHER ASSETS

	2009	2008
Other receivables	15,735	23,203
Impairment provision for doubtful other receivables	(2,033)	(2,301)
	10,675	**20,902**
Deferred expenses	17,067	29,760
	30,769	**50,662**

The carrying value of other assets approximates to their fair value.

15. CASH AND CASH EQUIVALENTS

	2009	2008
Bank accounts	91,153	38,545
Bank time deposits	232,536	289,736
	323,689	**328,281**

Cash and cash equivalents are denominated in the following currencies:

	2009	2008
Roubles	173,131	170,592
US dollars	54,972	109,034
Euros	91,810	46,597
Other	3,776	2,058
	323,689	**328,281**

The carrying value of cash and cash equivalents approximates to their fair value.

16. EQUITY

Share capital

At the reporting date the Parent Company’s authorized share capital comprised 9,359,450,000 ordinary shares (2008: 9,359,450,000) of which 8,708,938,708 ordinary shares (2008: 8,708,938,708 ordinary shares) were issued and fully paid. All shares have par value of RUB 0.01 (2008: RUB 0.01). All shares carry equal voting and distribution rights.

(Tabular amounts in thousands of US dollars unless otherwise stated)

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There are no regulations applicable to the Group's capital structure apart from those mandated by legislation. Management regularly monitors profitability, leverage ratios, compliance with debt finance covenants and dividend levels. This monitoring uses the return on assets ratio (being profit from operations divided by total assets) and the leverage ratio (being total debt finance, less cash and cash equivalents divided by shareholders' equity). There were no changes in the Group's approach to capital management during the year.

Additional paid-in capital

Contributions to additional paid-in capital arose initially in connection with the formation of the Group in 2002 and 2003 from the excess of fair value over purchase price of shares of the Parent Company's subsidiaries sold to the Group by entities under common control of the majority shareholder or acquired from minorities, less amounts converted to share capital.

Foreign currency translation reserve

Foreign currency translation reserve comprises foreign exchange differences arising from the translation of these consolidated financial statements from the functional to the presentation currency. The exchange rates used to translate the financial statements of foreign operations were:

	Statement of financial position		Income statement	
	2009	**2008**	**2009**	**2008**
US dollar	30.2442	29.3804	31.7364	24.8553
Indian Rupee	46.6800	48.7995	48.4219	42.8578
Euro	0.6971	0.7089	0.7190	0.6823

Dividends

During the year, the Parent Company did not pay any dividends. The maximum dividend payable is limited to retained earnings of the Parent Company as determined in accordance with the legislation of the Russian Federation. At the reporting date, reserves available for distribution in accordance with the legislation of the Russian Federation amounted to US$ 277.3 million, unaudited (2008: US$ 56.4 million, unaudited).

As disclosed in note 17, certain covenants of the Group's loans currently restrict the payment of dividends.

17. DEBT FINANCE

The carrying value of the Group's interest bearing bank finance is as follows:

	2009	**2008**
Secured	58,685	108,529
Unsecured	11,997	24,377
	70,682	**132,906**

(Tabular amounts in thousands of US dollars unless otherwise stated)

Maturity analysis of debt finance is as follows:

	2009	**2008**
Within one year	44,641	112,458
Between one and five years	24,917	17,517
More than five years	1,124	2,931
	70,682	**132,906**

Debt finance is denominated in the following currencies:

	2009	**2008**
Roubles	21,797	49,435
US dollars	43,643	73,494
Euros	5,242	9,977
	70,682	**132,906**

At the reporting date, debt finance carries either fixed interest rates of between 9% and 16% per annum or floating rates of LIBOR (‘London Inter-Bank Offer Rate’) plus spreads of between 3% and 5% per annum. The carrying value of debt finance approximates to its fair value.

At the reporting date the Group had US$ 51.6 million (December 31, 2008: US$ 25.1 million) of unused credit lines available to it.

In May 2007 the Group received a long-term loan from VTB Bank EUROPE plc of US$ 70.0 million. Future cash proceeds under some sales contracts are collateralized under this agreement. Covenants in the loan agreement require the Group to maintain certain financial ratios, prohibit any change to the general nature of the business, restrict dividends payments and limit disposal of assets. The Group may not perform mergers, acquisitions, reorganizations and consolidations without prior written consent of VTB Bank EUROPE plc.

The following assets and revenue streams have been pledged to secure the Group’s debt finance:

	2009	**2008**
Inventories and Amounts due from customers under construction contracts	-	196,396
Revenue from planned supply of equipment in the future	38,182	73,085
Property, plant and equipment	45,566	56,315
	83,748	**325,796**

The above assets and revenue streams were pledged to secure the following borrowings:

	2009	**2008**
Pledged in respect of debt finance	82,106	295,163
Pledged in respect of bank guarantees received	1,642	30,633
	83,748	**325,796**

(Tabular amounts in thousands of US dollars unless otherwise stated)

18. ADVANCES RECEIVED FROM CUSTOMERS

	2009	2008
In respect of construction contracts in progress	1,441,484	1,135,603
Other	288,558	503,595
	1,730,042	**1,639,198**

19. TRADE ACCOUNTS PAYABLE

The carrying value of trade accounts payable approximates to their fair value.

Trade accounts payable are denominated in the following currencies:

	2009	2008
Roubles	34,575	30,874
US dollars	61,032	38,420
Euros	16,512	16,125
Other	18,152	4,250
	130,271	**89,669**

20. TRADE AND OTHER ACCOUNTS PAYABLE TO RELATED PARTIES

Trade and other payables to related parties are denominated in the following currencies:

	2009	2008
Roubles	1,191	548
Euros	24,798	8,604
Other	903	308
	26,892	**9,460**

The amount of purchases from related parties is as follows:

	2009	2008
Purchases of goods	303,346	90,715
Purchases of services	14,485	11,685
Purchases of services, related to construction in progress	10,129	-
	327,960	**102,400**

All transactions with related parties were entered into on an arm's length basis. Trade balances are settled on normal trading terms. The Group has no unimpaired past due amounts receivable from related parties. The carrying values of amounts receivable from related parties approximate their fair values.

(Tabular amounts in thousands of US dollars unless otherwise stated)

21. OTHER LIABILITIES

	2009	2008
Employee related liabilities	36,368	34,397
Other	14,237	10,453
	50,605	**44,850**

Maturity analysis:

	2009	2008
Within one year	48,996	40,351
Between one and five years	1,609	4,499
	50,605	**44,850**

The carrying value of other liabilities approximates to their fair values.

22. PROVISIONS FOR CONTINGENCIES

	Provisions for warranties	Provisions for onerous contracts	Total
Balance at January 1, 2008	**3,621**	**228,672**	**232,293**
Provisions made during the year	4,259	74,267	76,504
Provisions used during the year	(1,778)	(74,759)	(74,515)
Provision released during the year	-	(22,297)	(22,297)
Business combination (note 25)	-	5,160	5,160
Foreign currency translation difference	(903)	(34,217)	(35,120)
Balance at December 31, 2008	**5,199**	**176,826**	**182,025**
Provisions made during the year	2,936	23,633	26,569
Provisions used during the year	(758)	(23,082)	(23,840)
Provision released during the year	-	(35,738)	(35,738)
Foreign currency translation difference	(61)	(5,572)	(5,633)
Balance at December 31, 2009	**7,316**	**136,067**	**143,383**

The Group exercises judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities.

Judgment is necessary in assessing the likelihood that a pending claim will succeed or liability will arise and to quantify the possible range of 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 independent legal and technical experts. Revisions to the estimates may significantly affect future results.

Provision for warranties

The Group gives warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily.

Provision for onerous contracts

Provision for onerous contracts is recognized when the expected revenues are lower than the expected costs to completion based on year end exchange rates. No adjustment has been made for exchange rate variances after the reporting date.

Provision for litigation

The Group has a number of claims including contract related disputes for contract delays or additional work which have arisen in the ordinary course of business. Contract related disputes are common to the business of the Group, particularly for large long-term contracts. Based on the facts and circumstances existing on the date of these financial statements as well as historical experience with such claims and litigations, management estimates that possible losses associated with unresolved contract related disputes at December 31, 2009, may amount up to US$ 40.1 million (2008: US$ 55.8 million).

Other provisions

The Group has a number of small claims and pending litigation relating to sales and purchases of goods and services from suppliers. Management believes that none of these claims, individually or in aggregate, will have a materially adverse impact on the Group.

23. FINANCIAL RISK MANAGEMENT

Risk management

The Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group does not use derivative financial instruments.

(Tabular amounts in thousands of US dollars unless otherwise stated)

Concentration risk

There is no significant concentration of risk and management regularly monitors its exposure to individual counterparties to ensure large concentrations of transactions and balances are avoided.

Foreign currency risk

The Group incurs currency risk when it enters into transactions and balances not denominated in its functional currency. The Group has assets and liabilities denominated in foreign currencies. Foreign currency risk arises when the actual or prospective assets denominated in a foreign currency are either greater or less than the liabilities in that currency.

Although management does not use derivative financial instruments to manage foreign currency risk, it attempts to manage the outstanding balances of monetary assets and liabilities such that foreign currency exposures are matched between assets and liabilities in the same currency.

The table below details the Group's sensitivity to strengthening of the US dollar and the Euro against the rouble by 10%. The analysis was applied to monetary items at the reporting dates denominated in the respective currencies.

	US Dollar		Euro	
Assets	**2009**	**2008**	**2009**	**2008**
Trade and other receivables	98,546	70,929	43,785	23,903
Cash and cash equivalents	54,972	109,034	91,810	46,597
Total assets	**153,518**	**179,963**	**135,595**	**70,500**
Liabilities				
Debt finance	(43,643)	(73,494)	(5,242)	(9,977)
Trade and other payables	(61,032)	(39,894)	(41,310)	(24,729)
Total liabilities	**(104,675)**	**(113,388)**	**(46,552)**	**(34,706)**
Total net position	**48,843**	**66,575**	**89,043**	**35,794**

The table below details the Group's sensitivity to strengthening of the US dollar and the Euro against rouble by 10%. The analysis was applied to monetary items at the reporting dates denominated in the respective currencies.

	US dollar impact		Euro impact	
	2009	**2008**	**2009**	**2008**
Gain (all in US$)	4,919	6,486	9,073	4,304

(Tabular amounts in thousands of US dollars unless otherwise stated)

Interest rate risk

Interest rates on the Group's debt finance are either fixed or variable, being a fixed spread over LIBOR for the duration of each contract. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed-rate debt) or their future cash flows (variable-rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be at a fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

Although the Group does not use derivative financial instruments to manage interest rate risk exposure, the majority of the Group's interest bearing assets and liabilities carry fixed rates thereby limiting risk.

At the reporting date the Group interest rate profile was as follows:

	2009	**2008**
Variable interest rate bearing assets	3.22%	5.87%
Fixed interest rate bearing assets	0.00%	2.25%
Variable interest rate bearing liabilities	11.67%	11.91%
Fixed interest rate bearing liabilities	6.21%	5.31%

The table below details the Group's sensitivity to a decrease of floating rate by 1%. The analysis was applied to debt finance based on the assumptions that the liability outstanding as at the reporting date was outstanding for the whole year.

	LIBOR impact	
	2009	**2008**
Gain	383	729

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position and totals US$ 672.1 million (2008: US$ 525.1 million).

The Group has developed policies and procedures for the management of credit exposures, including the establishment of credit committees that actively monitor credit risk and the use of credit insurance. Before accepting of any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit terms separately for each individual customer. Credit limits attributable to a customer are not a subject to subsequent change.

(Tabular amounts in thousands of US dollars unless otherwise stated)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations. However at December 31, 2009 and 2008 the Group's working capital was in a deficit position (note 27).

The following are the contractual maturities of financial liabilities at the reporting date, including estimated interest payments and excluding the impact of netting agreements:

At December 31, 2009

	Carrying amount	Contractual cash flow	Within one year	One to five years	Over five years
Trade accounts payable	130,271	132,844	111,521	21,323	-
Trade and other payables to related parties	26,892	26,892	26,892	-	-
Ttaxes and social security payable	15,788	15,788	15,788	-	-
Debt finance	70,682	76,166	48,116	26,819	1,231
Other liabilities	50,605	50,605	48,996	1,609	-
	294,238	**302,295**	**251,313**	**49,751**	**1,231**

At December 31, 2008

	Carrying amount	Contractual cash flow	Within one year	One to five years	Over five years
Trade accounts payable	89,669	90,720	84,624	6,096	-
Trade and other payables to related parties	9,460	9,460	9,460	-	-
Taxes and social security payable	13,776	13,776	13,776	-	-
Debt finance	132,906	141,029	118,497	19,251	3,281
Other liabilities	44,850	44,850	40,351	4,499	-
	290,661	**299,835**	**266,708**	**29,846**	**3,281**

(Tabular amounts in thousands of US dollars unless otherwise stated)

24. SUBSIDIARIES AND ASSOCIATES

The following is a list of the Group's significant subsidiaries and associates, and the effective holdings of ordinary shares therein.

Name of company	Principal activity	Country of incorporation	Ownership interest 2009	Ownership interest 2008
Subsidiaries:				
OAO Kaluzhsky Turbinny Zavod	Production of turbines	Russia	56.29%	42.72%
Power Machines de Mexico	Installation of energy equipment	Mexico	99.90%	99.90%
Power Machines (India) Limited	Installation of energy equipment	India	100.00%	100.00%
LMZ Energy Limited	Sales of energy equipment	Ireland	100.00%	100.00%
EMEC LTDa	Installation of energy equipment	Columbia	99.99%	99.99%
OOO Interturbo	Production of turbines	Russia	55.12%	55.12%
OOO Reostat	Production of electric engines	Russia	100.00%	100.00%
Enermasch Handels GmbH	Wholesales of spare parts for locomotives	Germany	-	100.00%
Associates:				
NPO CKTI	Research and development	Russia	35.00%	35.00%

25. BUSINESS COMBINATION

On March 20, 2008 the Group purchased 260,178 ordinary shares (or 50.32% of total voting shares and 38.5% of total issued shares) of KTZ (note 1), producer of steam and gas turbines of small and medium capacity, located in Kaluga, the Russian Federation, from its immediate shareholder Highstat Ltd. for cash consideration of US$ 53.7 million. Highstat Ltd. acquired these shares from third parties in March 2008 for the same amount.

(Tabular amounts in thousands of US dollars unless otherwise stated)

A summary of the fair value of identifiable assets and liabilities of KTZ on the date of acquisition is presented below:

Property, plant and equipment (note 10)	145,111
Intangible assets (note 11)	1,629
Other non-current assets	949
Inventories	59,476
Trade and other receivables	104,500
Cash and cash equivalents	7,899
Total assets	**319,564**
Debt finance	20,154
Trade and other payables	138,670
Deferred tax liabilities (note 8)	26,101
Provisions (note 22)	5,160
Total liabilities	**190,085**
Net assets at the date of acquisition	**129,479**
Non-controlling interests	(79,578)
Group's share of net assets acquired	**49,901**
Add: Goodwill arising on acquisition	3,809
Total cost of acquisition	**53,710**
Less: Cash and cash equivalents acquired	(7,899)
Net cash outflow on acquisition	**45,811**

At the date of acquisition of the controlling interest by the Group, KTZ did not prepare financial statements in accordance with IFRS. Thus, it was not practicable to determine the carrying amounts of the acquired assets and liabilities in accordance with IFRS immediately before the acquisition, and this information was not presented in the consolidated financial statements.

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire KTZ. In addition, the consideration paid effectively included amounts in relation to the benefits of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

In July 2008, the Group acquired additional 28,492 ordinary shares (or 5.51% of total voting shares and 4.22% of total issued shares) of KTZ for cash consideration of US$ 5.7 million in the course of the obligatory offer made in accordance with the corporate legislation of the Russian Federation. The carrying value of KTZ net assets at the date of increase of ownership was US$ 118.9 million. As a result of this transaction, the Group recognized a decrease in net assets attributable to non-controlling interest of US$ 4.7 million.

Total goodwill resulting from acquisitions of shares of KTZ during 2008 was US$ 4.5 million (US$ 3.7 million translated at the exchange rate as of 31 December 2008).

(Tabular amounts in thousands of US dollars unless otherwise stated)

In February 2009, the Group acquired additional 20,304 ordinary shares (or 3.93% of total voting shares and 3.00% of total issued shares) and 70,966 preferred shares (or 10.50% of total issued shares) of KTZ for US$ 4.5 million. As a result of this transaction, the Group recognized a decrease in net assets attributable to non-controlling interest of US$ 11 million. The difference between the amount by which the carrying value of non-controlling interest in KTZ is adjusted and the fair value of the consideration paid of US$ 6.5 million was recognized directly in equity.

26. DISPOSAL OF BUSINESS

In May 2009, the Group sold the 100% share in its subsidiary Enermasch Handels GmbH to a third party for a total consideration of Euro 100 thousand (US$ 127 thousand at the exchange rate effective at the transaction date). Net assets of Enermash Handels GmbH at the date of disposal comprised US$ 165 thousand.

27. COMMITMENTS AND CONTINGENCIES

Long-term purchase contracts

In the normal course of the business, Group companies enter into long-term purchase contracts for certain raw materials, with volume commitments related to manufacturing requirements. These contracts allow for periodic adjustments in prices dependent on prevailing market conditions.

Capital commitments

At the reporting date, the Group was committed to capital expenditure (property, plant and equipment) of approximately US$ 47.6 million (2008: US$ 39.7 million).

Social commitments

The Group makes contributions to mandatory and voluntary social programs. The Group’s social assets, as well as local social programs, benefit the community at large and are not normally limited to the Group’s employees. The Group has transferred certain social operations and assets to local authorities; however, management expects that the Group will continue to fund these social programs for the foreseeable future. These costs are expensed in the period they are incurred.

Operating leases

The Group has commitments under non-cancellable operating leases as follows:

	2009	2008
Payable within one year	1,194	1,229
Payable between one and five years	4,775	4,915
Payable after more than five years	53,718	56,526
	59,687	**62,670**

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations.

Russian Federation tax and regulatory environment

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the 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 their interpretation of the legislation and assessments. As a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to tax audit by the authorities for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods.

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

With regards to matters where practice concerning payment of taxes is unclear, management estimated the possible tax exposure at December 31, 2009 to be approximately US$ 1.9 million (2008: US$ 2.5 million).

Agency fees

According to industry practice the Group pays fees to agents to secure and facilitate installation, construction and manufacturing contracts and provide tender support in the Russian Federation and overseas. Such agents are independent from the Group and are acting in their own name in the interest of the Group. Management believes that the Group and its agents are in compliance with applicable laws on corrupt practices in respect of such agency fees. However, there is a potential risk that agents may engage in activities that violate local laws on corrupt practices.

Management is of the opinion that at December 31, 2009 there are no liabilities, provisions and disclosures related to this risk.

Environmental liabilities

Environmental regulations are currently under consideration in the Russian Federation and the Group is continuously evaluating its obligations relating to new and changing legislation. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reliably measured at present but could become material.

Under the existing legislation, management believes that there are no significant unrecorded liabilities or contingencies that could have a significant adverse effect on the operating results or financial position of the Group.

Working capital deficiencies

At December 31, 2009 the Group's current liabilities exceeded its current assets by US$ 100.1 million (2008: US$ 215.8 million).

Management efforts to improve Group's liquidity position concentrate primarily on increasing operating cash flows through sales increases, improved margins, contract cost reductions, and refinancing of the existing liabilities. Management believes that the Group's available borrowing facilities and operating cash flows will be sufficient to fund its operations for the next year. Management is of the opinion that the Group will continue as a going concern.

Volatility in financial markets

In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilization measures that may be put into place by the Russian Government, there exists as at the date these consolidated financial statements are authorized for issue economic uncertainties surrounding the continual availability, and cost, of credit both for the Group and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may be not be recovered at their carrying amount in the ordinary course of business, and a corresponding impact on the Group's profitability.

28. EVENTS AFTER REPORTING DATE

In July 2009, KTZ issued 160,368 ordinary shares with par value of RUB 1 to the Parent Company by means of a closed subscription. The Parent Company paid the first tranche of RUB 546.7 million in August 2009 (US$ 17.6 million at the exchange rate effective at the transaction date) of the total amount due under the share purchase agreement of RUB 780.9 million. According to share purchase agreement, the right of ownership on shares passes to the Parent Company after the final payment of RUB 234.2 million.

The Parent Company completed the final payment in February 2010. As a result, the Group recognized a decrease in net assets attributable to non-controlling interests accordingly. The total amount of ordinary shares of KTZ owned by the Parent Company after final payment is 469,342 ordinary shares (or 69.29% of total voting shares and 56.18% of total issued shares) and 70,966 preferred shares (or 8.5% of total issued shares).