OMZ

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditors' Report

31 December 2009

Contents

INDEPENDENT AUDITORS' REPORT

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Independent Auditors' Report

To the Board of Directors of Open Joint Stock Company OMZ

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, 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. Except as described in the first paragraph of the Basis for Qualified Opinion, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

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

Basis for Qualified Opinion

Management was unable to obtain sufficient information to determine the fair value on initial recognition of two available-for-sale investments acquired from related parties in September and December 2008, one of which was subsequently sold to a related party in December 2009. Management was also unable to obtain sufficient information to determine whether these available-for-sale investments, which are stated at cost, are impaired as at 31 December 2009 and 2008 as required by IAS 39 *Financial Instruments: Recognition and Measurement*. We were unable to satisfy ourselves as to the carrying amount of available-for-sale investments stated at USD 31,421 thousand as at 31 December 2009 (31 December 2008: USD 90,342 thousand) by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to available-for-sale investments, taxation, net profit and retained earnings as at and for the years ended 31 December 2009 and 2008.

The Company has not disclosed the existence of an ultimate controlling party, if any, prior to 26 December 2008. It was impracticable to satisfy ourselves as to whether there was an ultimate controlling party prior to that date. Because of this matter, we were unable to determine whether the disclosure of related party transactions for the year ended 31 December 2008, which are required to be disclosed by International Financial Reporting Standard IAS 24 *Related Party Disclosures,* are complete.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the first paragraph of the Basis for Qualified Opinion, and except for the effects of such additional disclosures in the corresponding information, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the second paragraph of the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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28 April 2010

(in thousands of US unless otherwise stated)

	Note	31 December 2009	31 December 2008
ASSETS			
Current assets:			
Cash and cash equivalents	9	16 311	36 498
Trade and other receivables	10	463 509	297 626
Advances to suppliers	10	66 155	80 402
Income tax receivable		5 429	5 208
Inventories	11	208 947	253 929
Non-current assets held for sale		5 845	-
Other current financial assets	12	35 856	45 393
Total current assets		**802 052**	**719 056**
Non-current assets:			
Property, plant and equipment	13	357 447	256 899
Intangible assets	14	48 427	46 530
Deferred tax assets	28	20 192	10 135
Investments accounted for using the equity method	33	-	40 996
Other non-current financial assets	15	104 620	195 090
Other non-current assets	16	22 763	6 276
Total non-current assets		**553 449**	**555 926**
Total assets		**1 355 501**	**1 274 982**
LIABILITIES			
Current liabilities:			
Trade and other payables	17	518 443	415 257
Provisions for liabilities and charges	29	15 583	6 005
Short-term borrowings	18	120 945	357 620
Income tax payable		2 732	9 070
Total current liabilities		**657 703**	**787 952**
Non-current liabilities:			
Long-term borrowings	18	367 320	152 598
Long-term taxes payable	19	148	2 727
Deferred tax liabilities	28	26 657	24 196
Other long-term liabilities	20	9 529	9 093
Total non-current liabilities		**403 654**	**188 614**
Total liabilities		**1 061 357**	**976 566**
EQUITY			
Equity and reserves attributable to the Company's equity holders:			
Share capital	21	384	396
Share premium		95 493	98 301
Treasury shares	21	(40 832)	(42 033)
Hedging reserve		(1 330)	(13 690)
Currency translation reserve		56 796	7 854
Retained earnings		169 688	225 641
		280 199	**276 469**
Minority interest		13 945	21 947
Total equity		**294 144**	**298 416**
Total liabilities and equity		**1 355 501**	**1 274 982**

Chief Executive Officer Sorochan I.P.	Deputy General Director Responsible for Finance Gavrikov G.G.	Chief Accountant Polevaya N.V.

28 April 2010.

The accompanying notes on pages 5 to 49 are an integral part of these consolidated financial statements.

(in thousands of US dollars except per share amounts)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Continuing operations			
Sales		866 972	1 174 621
Cost of sales	23	(687 363)	(932 072)
Gross profit		**179 609**	**242 549**
Selling expenses	24	(30 745)	(36 341)
General and administrative expenses	25	(79 797)	(97 171)
Other operating income	26	17 334	11 724
Other operating expense	26	(25 259)	(13 333)
Operating profit		**61 142**	**107 428**
Finance income	27	9 796	25 182
Finance expense	27	(69 539)	(64 656)
Profit before taxation		**1 399**	**67 954**
Income tax benefit/(expense)	28	1 426	(31 897)
Profit from continuing operations		**2 825**	**36 057**
Discontinued operation			
Loss from joint venture	33	(37 969)	(45 574)
Gain on disposal of joint venture	33	18 114	-
Loss from discontinued operations		**(19 855)**	**(45 574)**
Loss for the year		**(17 030)**	**(9 517)**
Other comprehensive income			
Foreign currency translation differences		591	(26 135)
Cash flow hedges, net of tax		12 167	(22 264)
Other comprehensive income for the year, net of income tax		**12 758**	**(48 399)**
Total comprehensive income for the year		**(4 272)**	**(57 916)**
Loss/(profit) for the year attributable to:			
Equity holders of the Company		(13 329)	(11 117)
Minority interest		(3 701)	1 600
Loss for the year		**(17 030)**	**(9 517)**
Comprehensive income for the year attributable to:			
Equity holders of the Company		3 730	(59 516)
Minority interest		(8 002)	1 600
Total comprehensive income for the year		**(4 272)**	**(57 916)**
Earnings per share attributable to the equity holders of the Company (in US dollars)			
- basic	31	(0,4310)	(0,3594)
- diluted	31	(0,4310)	(0,3594)
Earnings from continuing operations per share attributable to the ordinary equity holders of the parent entity (in US dollars)			
- basic	31	0,2110	1,1141
- diluted	31	0,2110	1,1141

The accompanying notes on pages 5 to 49 are an integral part of these consolidated financial statements.

(in thousands of US dollars unless otherwise stated)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Cash flows from operating activities			
Profit before taxation from continuing operations		1 399	67 954
Adjustments for:			
Depreciation and amortization		38 454	40 368
Change in provisions for impairment and other provisions		30 303	28 868
Gain on disposal of subsidiaries	26, 33	-	(801)
Impairment loss on property, plant and equipment	13, 26	7 603	-
Gain on disposal of property, plant and equipment	26	(361)	(559)
Loss from disposal of intangible assets	14	1 585	-
Gain on derecognition of financial liability	26	(114)	(986)
Net finance cost adjusted for foreign exchange differences	27	55 377	31 884
Net foreign exchange loss	27	4 412	7 276
Net gain on disposal of securities	26	(14 818)	(837)
Operating cash flows before working capital changes		**123 840**	**173 167**
Change in trade and other receivables and advances to suppliers		(169 117)	(55 928)
Change in inventories		3 002	(69 109)
Change in trade and other accounts payable		127 756	55 165
Cash provided from continuing operations		**85 481**	**103 295**
Income taxes paid		(16 666)	(20 192)
Net cash provided from operating activities		**68 815**	**83 103**
Cash flows from investing activities:			
Proceeds from sale of subsidiaries, net of cash disposed	33	-	35 474
Proceeds from sale of interest in joint venture	33	18 114	-
Purchase of property, plant and equipment and intangibles		(62 520)	(100 904)
Proceeds from sale of property, plant and equipment and intangibles		846	2 118
Net purchases of financial assets		(4 984)	(211 816)
Proceeds from the disposal of financial assets		103 374	69 673
Interest received		8 700	27 067
Net proceeds from loans issued		5 028	7 378
Net cash from/(used in) investing activities		**68 558**	**(171 010)**
Cash flows from financing activities:			
Proceeds from borrowings		558 972	690 681
Repayment of borrowings		(661 651)	(566 849)
Interest paid		(56 589)	(54 207)
Net cash (used in)/provided from financing activities		**(159 268)**	**69 625**
Effect of exchange rate changes on cash and cash equivalents		(2 570)	(2 520)
Net decrease in cash and cash equivalents		**(24 465)**	**(20 802)**
Cash and cash equivalents at the beginning of the year	9	**36 498**	**57 300**
Cash and cash equivalents at the end of the year	9	**12 033**	**36 498**

The accompanying notes on pages 5 to 49 are an integral part of these consolidated financial statements.

(in thousands of US dollars unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Treasury shares**	**Hedging reserve**	**Currency translation reserve**	**Retained earnings**	**Minority interest**	**Total equity**
Balance as at 1 January 2008	**474**	**117 661**	**(50 311)**	**6 580**	**24 823**	**236 758**	**20 347**	**356 332**
Loss for the year	-	-	-	-	-	(11 117)	1 600	(9 517)
Other comprehensive income:								
Currency translation difference	(78)	(19 360)	8 278	1 994	(16 969)	-	-	(26 135)
Cash flow hedges, net of tax	-	-	-	(22 264)	-	-	-	(22 264)
Total comprehensive income for the year ended 31 December 2008	**(78)**	**(19 360)**	**8 278**	**(20 270)**	**(16 969)**	**(11 117)**	**1 600**	**(57 916)**
Balance as at 31 December 2008	**396**	**98 301**	**(42 033)**	**(13 690)**	**7 854**	**225 641**	**21 947**	**298 416**
Balance as at 1 January 2009	**396**	**98 301**	**(42 033)**	**(13 690)**	**7 854**	**225 641**	**21 947**	**298 416**
Loss for the year	-	-	-	-	-	(13 329)	(3 701)	(17 030)
Other comprehensive income: Foreign currency translation differences	(12)	(2 808)	1 201	193	48 942	(42 624)	(4 301)	591
Cash flow hedges, net of tax	-	-	-	12 167	-	-	-	12 167
Total comprehensive income for the year ended 31 December 2009	**(12)**	**(2 808)**	**1 201**	**12 360**	**48 942**	**(55 953)**	**(8 002)**	**(4 272)**
Balance as at 31 December 2009	**384**	**95 493**	**(40 832)**	**(1 330)**	**56 796**	**169 688**	**13 945**	**294 144**

The accompanying notes on pages 5 to 49 are an integral part of these consolidated financial statements.

1. The OMZ Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009. These consolidated financial statements incorporate the operations of OJSC OMZ (the "Company") and its subsidiaries (together referred to as the "Group" or "OMZ").

OJSC OMZ was incorporated as an open joint stock company in Ekaterinburg, the Russian Federation in 1996 and was established in accordance with Russian regulations. OMZ's principal subsidiaries are disclosed in Note 32. These are incorporated under the Laws of the Russian Federation and the Czech Republic. For details of changes in the Group structure during 2009 refer to Note 33.

Principal activities. The Group operates in the following industries and countries: production of nuclear power plant equipment in the Russian Federation and in the Czech Republic, production of speciality steels in the Russian Federation and in the Czech Republic, manufacturing machinery equipment and mining equipment, both in the Russian Federation.

Registered address and place of business.

During the year ended 31 December 2009, the Company changed its registered address. The Company's current registered address is:

Russian Federation
Moscow
2nd Ambulatornii Proezd, 8 building 3

The Company was previously registered at the following address:

Russian Federation
Moscow
Timura Frunze Street 24

Operating environment of the Group. The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation and the Czech Republic.

Russian Business Environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic situation in the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

2. Basis of Preparation

Statement of compliance. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of measurement. The consolidated financial statements of the Group are prepared using the historical cost basis except for financial investments classified as available-for-sale which are stated at fair value and the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

Functional currency. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency for the Group's subsidiaries located in Russia is the national currency of the Russian Federation, the Russian Rouble ("RR"). The functional currency for the Group's subsidiaries located in the Czech Republic is the national currency of the Czech Republic, the Czech Koruna ("CZK").

Presentation currency. These consolidated financial statements are presented in US Dollars ("US$") as management believes this is more convenient for users. All financial information has been rounded to the nearest thousand unless otherwise stated.

Foreign currency translation. Transactions denominated in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into each entity's functional currency at exchange rates at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Translation from functional to presentation currency. The results and financial position of each group entity (none of which have a functional currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities are translated US$ at the exchange rate at the reporting date;

(ii) income and expenses for each statement of comprehensive income are translated into US $ at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised directly in other comprehensive income as the foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the exchange rates at the reporting date. When a foreign operation is disposed of, in part or in full, through sale, liquidation, repayment of share capital or abandonment, the relevant amount of the foreign currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to be part of the net investment in foreign operation and are recognised directly in other comprehensive income and presented within equity in the foreign currency translation reserve.

As at 31 December 2009 the principal rates of exchange used for translating foreign currency balances were US$ 1 = RR 30,2442 (2008: US$ 1 = RR 29,3804) and CZK 1=RR 1,63 (31 December 2008 CZK 1=RR 1,57).

3. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of the consolidated financial statements are summarised below. These accounting policies have been consistently applied, except as explained in note 5, which addresses changes in accounting policies.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up and equity instruments issued and liabilities incurred or assumed at the date of exchange. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest, except for contingent income tax liabilities, which are measured in accordance with IAS 12 "Income Taxes".

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

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

Investments in jointly controlled entities. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. The Group recognises its interest in a jointly controlled entity using the equity method. The consolidated financial statements include the Group's share of the income and expenses of jointly controlled entities, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds its interest in a jointly controlled entity, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the jointly controlled entity.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the invitees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

3. Summary of Significant Accounting Policies (Continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related consolidated statement of financial position items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Trading investments are securities or other financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists. The Group classifies financial assets into trading investments if it has an intention to sell them within a short period after acquisition, i.e. within 1 to 3 months. Trading assets also include financial derivatives. Trading investments are not reclassified out of this category even when the Group's intentions subsequently change.

Derivative financial instruments, including foreign exchange and commodity contracts are carried at their fair value. The method of accounting for the fair value gain or loss depends on whether the derivative is designated as a hedging instrument or held for trading. Trading derivatives are presented within Other financial assets or within Trade and other payables when their fair value is positive or negative, respectively. Hedging derivatives with less than one year to maturity are presented within Trade and other receivables or within Trade and other payables when their fair value is positive or negative, respectively. Hedging derivatives with more than one year to maturity are presented as Other non-current financial assets or within Other long-term liabilities when their fair value is positive or negative, respectively. The Group designates as hedging instruments only those contracts, for which it assesses at the hedge inception that the derivative that is used in the hedging transaction is highly effective in offsetting changes in cash flows of the hedged item, and for which proper documentation of the hedging relationship is in place.

The Group uses derivatives to hedge future cash flows. The Group classifies as hedging derivatives only those derivatives that hedge changes in cash flows from highly probable future transactions caused by changes in currency exchange rates and against changes in cash flows from highly probable future transactions caused by changes in commodity prices.

Changes in the fair value of derivatives that qualify as effective cash flow hedges are recognised in the hedging reserve in other comprehensive income. Where a hedged forecasted transaction or firm commitment results in the recognition of a non-financial asset or of a non-financial liability, the gains and losses previously deferred in the hedging reserve are recycled from the hedging reserve and are included in the initial cost of the asset or liability. When a hedged forecasted transaction or firm commitment results in the recognition of a financial asset or of a financial liability, the amounts deferred in the hedging reserve are recycled to profit and loss and classified as income or expense in the periods during which the hedged item affects the profit and loss.

3. Summary of Significant Accounting Policies (Continued)

When a hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting or the Group revokes the hedged derivative designation, any cumulative gain or loss on the hedging instrument, from the period when the hedge was effective, remains recognised in other comprehensive income until the forecast transaction occurs. Derivatives which do not meet the criteria for hedge accounting, or where the Group revokes the hedged derivative designation, are classified as trading derivatives.

When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately recycled to profit and loss and classified as financial income or financial expense.

Changes in the fair value of derivatives for trading are classified as financial income or financial expense.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as discounting the future cash flows or option models. The fair value of forward foreign exchange contracts is determined as the present value of future cash flows based on forward exchange market rates as at the balance sheet date. Fair value of commodity swaps is the present value of future cash flows from commodity derivatives based on the forward price taken from London Metal Exchange as the balance sheet date.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Certain derivative instruments do not qualify for hedge accounting according to IAS 39 “Financial Instruments: Recognition and Measurement”. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised in profit and loss for the period (as part of financial activities of the Group).

Other financial assets at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading investments. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group’s key management personnel.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Classification of financial liabilities. The Group classifies its financial liabilities into the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit and loss in the period in which they arise. Other financial liabilities are carried at amortised cost.

Initial recognition of financial instruments. Trading investments and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading investments; and recognised in other comprehensive income for assets classified as available for sale.

3. Summary of Significant Accounting Policies (Continued)

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

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and inflow of benefits is probable. All other elements of changes in the fair value are deferred in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from other comprehensive income to profit or loss for the period.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Trading investments. Trading investments are carried at fair value. Interest earned on trading investments calculated using the effective interest method is presented in profit and loss as finance income. Dividends are included in dividend income within finance income when the Group's right to receive the dividend payment is established and inflow of benefits is probable. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

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

Costs include expenditure that is directly attributable to the acquisition or construction of the asset including the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Repairs and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the net book values of the replaced parts or components are written off. Gains and losses arising from the retirement of property, plant and equipment are included in profit and loss as incurred.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit and loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's 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, if no impairment loss had been recognised.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

3. Summary of Significant Accounting Policies (Continued)

Depreciation. Depreciation is calculated on the restated amounts of property, plant and equipment on a straight-line basis.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

	Number of years
Buildings	up to 50
Constructions	up to 25
Plant and machinery	up to 15
Other	up to 5

Land and assets under construction are not depreciated.

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

Leased assets. Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates and joint ventures is included in the investment in associates/joint ventures. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. An impairment loss is recognised if the carrying amount of the cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed.

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

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software, patents, trademarks and licences.

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

Trademarks are recognised at historical cost. Trademarks have a definite useful life and are carried in the statement of financial position at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (50 years). Where an indication of impairment exists, the carrying amount of trademarks are assessed and, when impaired, the asset is written down immediately to its recoverable amount, which is the higher of net selling price and value in use.

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as an intangible asset if, and only if, it is technically feasible to complete the project, there is an intention to complete the project, it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are

3. Summary of Significant Accounting Policies (Continued)

amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit. The amortisation periods adopted do not exceed ten years.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Expenditure on acquired patents and licences is capitalised and amortised using the straight-line method over their useful lives, which do not exceed 20 years. The useful lives of other intangible assets do not exceed 15 years.

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

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in profit and loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income or equity.

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

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

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

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on weighted average cost method (see note 5). The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in profit and loss.

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

3. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held on call with banks, and other short-term, highly liquid, investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in either other current or other non-current financial assets.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting date. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (d) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the balance sheet date. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale property, plant and equipment or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Discontinued operations. A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

The Group stops classifying its non-current assets (or disposal group) as held for sale if core principles are not met – if its carrying amount will not be recovered principally through a sale transaction rather than through continuing use and if there is no commitment to sell (or exchange for shares in another entity) a substantial share of its interest in the subsidiaries.

If an entity ceases to classify a component of the Group as held for sale, the result of operations of the component previously presented in discontinued operations shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

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

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

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

3. Summary of Significant Accounting Policies (Continued)

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

Borrowings. Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are expensed except borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that take a substantial period of time to get ready for its intended use or sale and, therefore, should be capitalised as part of the cost of a qualifying asset.

Lease Payments. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

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

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

The Group recognises the estimated liability to repair or replace products sold still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

Financial guarantees. Financial guarantees are contracts that requires the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

Construction contracts. Construction contracts generally include long-term contracts to manufacture design-build equipment, including nuclear power plant equipment, continuous casting machines and handling machinery.

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are probable of recovery. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The Group uses the “percentage of completion method” to determine the appropriate amount of revenues to recognise in a given period.

Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

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

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

3. Summary of Significant Accounting Policies (Continued)

Revenue recognition. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

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

Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

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

Pension costs. In the normal course of business the Group contributes to the Russian Federation and the Czech Republic state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension schemes are expensed when incurred.

Discretionary pensions and other post-employment benefits are included in labour costs in the statement of comprehensive income of operations; however, separate disclosures are not provided, as these costs are not material.

Segment reporting. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same group), whose operating results are reviewed regularly by the Board of directors to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Inter-segment pricing is determined on an arm's length basis.

Earnings per share. The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment of long-lived assets. The Group tests goodwill for impairment at least annually and other non-financial assets, other than inventories and deferred tax assets, are tested at least at each reporting date if there are indicators of impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

Impairment of inventories. The Group reviews inventories at least annually and assesses the expected method of disposal, the proceeds or other economic benefits, if any, likely to be recovered from the disposal and the expected completion, selling and any other costs likely to be incurred during the disposal process when determining the net realisable value of inventory.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Impairment of trade and other receivables. The primary factors that the Group considers when assessing whether a receivable is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable.

With respect to deferred taxes, management has assumed that US$ 33 015 of tax losses will be utilised in the future (31 December 2008: US$ 28 417), the effect of which is to reduce the deferred tax liability recorded as at 31 December 2009 by US$ 6 603 (31 December 2008: US$ 6 820). Should these tax losses not be utilised, the deferred tax liability would be increased by this amount with a corresponding impact on the tax charge for the year. Tax benefits expire in 2015-2018.

Long-term contracts. Estimates have been made with respect to the recognition of revenue and gross margin on construction contracts including the expected "costs to complete", the probability of recovering retentions withheld by customers and variations/claims that have not yet been contractually agreed as well as the probability of customers making claims for delays under penalty clauses included in contracts. If the actual gross margins on the Group's contracts are 10% lower than management's estimates as at 31 December 2009, the Group would need to reduce the carrying value of receivables recognised using the percentage-of-completion method by US$ 23 125 (31 December 2008: US$ 13 371) with a corresponding effect on operating profit.

Going concern. Management has assumed that the Group will continue as a going concern. In making this judgement management considered current intentions and the financial position of the Group. Over the past years the Group has successfully worked with banks and financial institutions to secure the necessary financing for the long-term contracts in process and for other investing needs. Based on the terms of the existing contracts as well as its recent experience, management of the Group expects to be able to continue to secure necessary short-term and long-term financing for its operational and investing cash flow requirements.

Discontinued operations. The joint venture manufactures specialized heavy machinery including cranes, drilling and transportation logistics equipment. Management considers the sale of the joint venture to be the disposal of a separate major line of business. Consequently, in accordance with the requirements of IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, management has presented the joint venture as a discontinued operation. Comparative information has been re-presented.

Other areas where judgements have been made include provisions for trade and other receivables (Note 10) and provisions for inventory (Note 11).

5. Adoption of New or Revised Standards and Interpretations and Changes in Accounting Policies

With effect from 1 January 2009, the Group changed its accounting policies in the following areas:

- accounting for borrowing costs;
- determination and presentation of operating segments;
- presentation of financial statements; and
- the basis of measurement of cost for inventories.

5. Adoption of New or Revised Standards and Interpretations and Changes in Accounting Policies (Continued)

Accounting for borrowing costs

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Group immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of IAS 23 Borrowing Costs (2007) in accordance with the transitional provisions of such standard. Comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share.

Determination and presentation of operating segments

As at 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Board of Directors, that is the Group's chief operating decision maker (further CODM). This change in accounting policy is due to the adoption of International Financial Reporting Standard 8 Operating Segments. Previously operating segments were determined and presented in accordance with International Financial Reporting Standard IAS 14 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CODM to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

Presentation of financial statements

The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as at 1 January 2009. The revised standard requires a presentation of all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

The basis of measurement of cost for inventories

During 2009, the Group changed its accounting policy regarding the cost formula used to measure inventories from a first-in first-out basis to weighted average cost. Management believes that the weighted average cost formula provides more reliable and relevant information. IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requires that this change in accounting policy be applied retrospectively. Management has assessed that the effect of this change in accounting policy was not significant and, accordingly, no adjustments have been made to restate comparative information.

6. New Accounting Pronouncements

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2009, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 Related Party Disclosures (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The new Standard will not have any impact on the Group's financial position or performance.

6. New Accounting Pronouncements (Continued)

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after 1 February 2010. The amendment is expected to have no impact on the Group's consolidated financial statements.
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment, which becomes mandatory for the Group's 2010 consolidated financial statements, with retrospective application required, is not expected to have any impact on the consolidated financial statements.
- Amendment to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions which clarifies that the entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets is required to recognise the goods or services received in its financial statements. The amendment will come into effect on 1 January 2010. The amendment is expected to have no impact on the Group's consolidated financial statements.
- Revised IFRS 3 Business Combinations (2008) and amended IAS 27 (2008) Consolidated and Separate Financial Statements came into effect on 1 July 2009 (i.e. they become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among other things, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require the effects of transactions with non-controlling interests to be recognised directly in equity. The revisions and amendments are not expected to have an impact on Group's consolidated financial statements.
- Amendments to IFRS 5 Non-current Assets held for Sale and Discontinued Operations which came into effect on 1 July 2009. The amendment clarifies the classification of assets and liabilities on disposal of a subsidiary. The amendment is not expected to have an impact on Group's consolidated financial statements.
- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement clarify the separation criteria for embedded derivatives on reclassification of a hybrid instrument out of the fair value through profit or loss category. The amendment became effective for annual periods ending on or after 30 June 2009 and is not expected to have any effect on the consolidated financial statements.
- IFRIC 17 Distributions of Non-cash Assets to Owners addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how a non-cash dividend should be recognised and how the difference between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 became effective for annual periods beginning on or after 1 July 2009.
- IFRIC 18 Transfers of Assets from Customers applies to accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies the recognition and measurement of items received, how the resulting credit, as well as the transfer of cash from customers should be accounted for. IFRIC 18 applies prospectively to transfers of assets from customers received on or after 1 July 2009.

6. New Accounting Pronouncements (Continued)

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of International Financial Reporting Standards IAS 39 Financial Instruments: Recognition and Measurement. Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.

- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

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

7. Segment Information

In 2009, the Group has adopted the new standard IFRS 8 *Operating Segments*.

The Group's continuing operations are organised into five reportable segments which are described below:

Segment Izhorskiye Zavody OJSC. Segment of the production of equipment for nuclear power plants in Russia which produces three major types of equipment for the nuclear power industry and machinery equipment:

- Primary circuit equipment for nuclear power plants. A standard set of primary circuit equipment produced by the Group comprises a reactor vessel, in-vessel components, and a cover with extending pipes.
- Used nuclear fuel containers for nuclear power blocks. The Group manufactures containers for storage and transportation of used nuclear fuel from pressurized water reactors and scientific nuclear reactors.
- A wide range of spare parts.
- Machinery equipment based on OMZ's proprietary engineering and the production of equipment based on third party engineering, for various industries, including oil and gas, mining and metallurgical equipment.

In addition, the segment provides services for the installation of nuclear power plant equipment and project management of long-term contracts for the construction of nuclear power plants.

Segment SKODA JS a.s. Segment of the production of equipment for nuclear power plants in Czech Republic which produces equipment for the nuclear power plants and provides repair services, installation, upgrading and recycling of equipment for nuclear power plants.

Segment OMZ-Specstal LLC. Segment of the production of specialty based steel in Russia, which produces 150 specialty steel grades and a variety of castings and forgings. The Group produces high-strength structural grades, corrosion-resistant, radiation-resistant, heat-resistant, cold-resistant, non-magnetic and high-alloyed grades of steel. Standard types of casting, forging, and moulding production include retaining rings for power generating equipment, chill mould blanks, bearing ring blanks, column equipment, ship spindles, mill rolls, tank courses, as well as similar custom-made metal products. A significant part of the basic metal production is used internally as an input for the machinery equipment manufacturing segment and equipment for nuclear power plants.

Segment PILSEN STEEL s.r.o. Segment of the production of specialty steel in Czech Republic, the primary activity for which is steel production and processing of metal products.

Segment IZ-KARTEKS LLC. Segment of the production of mining equipment in Russia which specializes in engineering and marketing of three major types of mining equipment: excavators (electric mining excavators and walking draglines), crushing equipment, and rock-drilling machines.

Other business (other). This comprises the manufacture of equipment for oil refineries and all other activities.

(in thousands of US dollars unless otherwise stated)

7. Segment Information (Continued)

The Board of Directors evaluate the results of operations, assets and liabilities of the operating segments on the basis of financial statements prepared in accordance with the accounting laws of the country of registration of the particular subsidiary.

Sales or other transactions between the business segments are based on commercial terms that are available to third parties.

Russia:

	Izhorskiye Zavody OJSC	OMZ-Specstal LLC	IZ-KARTEKS LLC	Other	Total
Year ended 31 December 2009					
Segment sales	**214 946**	**205 509**	**69 289**	**231 934**	**721 678**
Intersegment sales	13 803	131 100	3 772	107 356	256 031
External sales	201 143	74 409	65 517	124 578	465 647
Reportable segment net profit/(loss) for the year	**5 997**	**8 550**	**(4 183)**	**(13 801)**	**(3 437)**
Interest income	**46**	**1 358**	**10**	**19 741**	**21 155**
Interest expenses	**(18 939)**	**(12 064)**	**(8 215)**	**(15 088)**	**(54 306)**
Depreciation	**(3 140)**	**(2 992)**	**(1 011)**	**(2 850)**	**(9 993)**
Income tax benefit/(expense)	**(3 543)**	**(2 091)**	**674**	**(615)**	**(5 575)**

Czech Republic:

	SKODA JS a.s.	PILSEN STEEL s.r.o.	Total
Year ended 31 December 2009			
Segment sales	**205 130**	**227 763**	**432 893**
Intersegment sales	2	1 391	1 393
External sales	205 128	226 372	431 500
Reportable segment net profit for the year	**8 121**	**16 361**	**24 482**
Interest income	**202**	**63**	**265**
Interest expenses	**(68)**	**(2 142)**	**(2 210)**
Depreciation	**(2 594)**	**(12 740)**	**(15 334)**
Income tax expense	**(2 408)**	**(2 266)**	**(4 674)**

The sales by types of products presented by following:

	Nuclear equipment	Special steel	Mining equipment	Oil and gas equipment	Other	Total
Year ended 31 December 2009						
Sales by products	**395 426**	**433 273**	**69 289**	**28 725**	**227 858**	**1 154 571**
Intercompany sales	13 804	132 491	3 772	-	107 357	257 424
External sales	381 622	300 782	65 517	28 725	120 501	897 147

The reconciliation of total reportable segments' profit to the loss for the year reported in the statement of comprehensive income is as follows:

	Year ended 31 December 2009
Net profit of segments	21 045
Loss from joint venture	(37 969)
Gain on disposal of joint venture	18 114
Recognition of revenue by the percentage of completion method	(13 935)
Recognition and measurement effect of other differences between statutory reporting and IFRSs	(4 285)
Loss for the year	**(17 030)**

The effect of the adjustments to external sales of the operating segments to present in conformity with IFRSs as reported in the statement of comprehensive income is as follows:

	Year ended 31 December 2009
External sales for operating segments	776 646
External sales for other segments	120 501
External sales for segments	**897 147**
Recognition of revenue by the percentage of completion method	(13 935)
Reclassification of gains or losses on hedging activities	(12 595)
Recognition and measurement effect of other differences between statutory reporting and IFRSs	(3 645)
Sales in the statement of comprehensive income	**866 972**

(in thousands of US dollars unless otherwise stated)

7. Segment Information (Continued)

The total assets and total liabilities of the operating segments are presented as follows:

	Izhorskiye Zavody OJSC	OMZ-Specstal LLC	IZ-KARTEKS LLC	Other	Total
Total assets for segments	587 112	194 280	91 193	1 087 866	1 960 451
Total liabilities for segments	465 404	145 104	84 742	715 892	1 441 142

	SKODA JS a.s.	PILSEN STEEL s.r.o.	Total
Total assets for segments	276 400	201 527	477 927
Total liabilities for segments	201 013	83 705	284 718

The effect of the adjustments to reportable segment assets as at 31 December 2009 to present in conformity with IFRSs as reported in statement of financial position is as follows:

Total assets for reportable segments	1 350 512
Total assets for other segments	1 087 866
Total assets for segments	**2 438 378**
Elimination of amounts due to and due from entities consolidated within the Group	(532 217)
Elimination of investments in subsidiaries	(324 930)
Netting-off of due to and due from under construction contracts	(194 111)
Unrealized income and expense arising from intragroup transactions	(19 733)
Recognition and measurement effect of other differences between statutory reporting and IFRSs including:	
- recognition of property, plant and equipment acquired using finance leases	78 332
- purchase accounting adjustments associated with historical business combinations and differences in useful economic lives for property, plant and equipment and intangible assets	(15 719)
- difference in valuation of accounts receiveable	(24 387)
- difference in valuation of inventory	(21 546)
- other	(2 259)
Total assets in statement of financial position	**1 355 501**

The effect of the adjustments to reportable segment liabilities as at 31 December 2009 to present in conformity with IFRSs as reported in statement of financial position is as follows:

Total liabilities for reportable segments	979 968
Total liabilities for other segments	715 892
Total liabilities for segments	**1 695 860**
Elimination of amounts due to and due from entities consolidated within the Group	(532 217)
Netting-off of due to and due from under construction contracts	(194 111)
Recognition of finance lease liability	74 806
Recognition of REPO transactions	5 396
Recognition of provisions in accordance with IFRS	13 659
Effect of other recognition and measurement differences between statutory reporting and IFRSs	(2 036)
Total liabilities in statement of financial position	**1 061 357**

In presenting information on the basis of geographical information, revenue is based on the geographical location of customers and non-current assets based on entities location.

	Sales Year ended 31 December 2009	Non-current assets 31 December 2009
Russian Federation	299 708	194 791
CIS	13 333	-
Asia	64 350	-
Europe	485 793	233 846
Other regions	3 788	-
Total	**866 972**	**428 637**

(in thousands of US dollars unless otherwise stated)

7. Segment Information (Continued)

Comparative information for 2008:

Russia:

	Izhorskiye Zavody OJSC	OMZ-Specstal LLC	IZ-KARTEKS LLC	Other	Total
Year ended 31 December 2008					
Segment sales	**220 617**	**273 044**	**182 451**	**309 757**	**985 869**
Intersegment sales	18 685	111 940	39 456	139 808	309 889
External sales	201 932	161 104	142 995	169 949	675 980
Reportable segment net profit for the year	**3 104**	**24 004**	**4 843**	**7 114**	**39 065**
Interest income	**60**	**995**	**6**	**10 315**	**11 376**
Interest expenses	**(15 480)**	**(2 351)**	**(2 063)**	**(6 796)**	**(26 690)**
Depreciation	**(3 403)**	**(1 332)**	**(1 496)**	**(4 283)**	**(10 514)**
Income tax benefit/(expense)	**(1 501)**	**(9 896)**	**(1 507)**	**(3 770)**	**(16 674)**

Czech Republic:

	SKODA JS a.s.	PILSEN STEEL s.r.o.	Total
Year ended 31 December 2008			
Segment sales	**181 916**	**349 915**	**531 831**
Intersegment sales	102	2 769	2 871
External sales	181 814	347 146	528 960
Reportable segment profit for the year	**5 584**	**53 564**	**59 148**
Interest income	**327**	**747**	**1 074**
Interest expenses	**(82)**	**(12 099)**	**(12 181)**
Depreciation	**(5 314)**	**(9 888)**	**(15 202)**
Income tax benefit/(expense)	**(1 711)**	**(9 457)**	**(11 168)**

The sales by types of products presented by following:

	Nuclear equipment	Special steel	Mining equipment	Oil and gas equipment	Other	Total
Year ended 31 December 2008						
Sales by products	**364 218**	**622 959**	**182 451**	**38 315**	**309 757**	**1 517 700**
Intercompany sales	18 787	114 709	39 456	-	139 808	312 760
External sales	345 431	508 250	142 995	38 315	169 949	1 204 940

The reconciliation of total reportable segments' profit to the loss for the year reported in the statement of comprehensive income is as follows:

	Year ended 31 December 2008
Profit for the year of segments	98 213
Loss from joint venture	(45 574)
Recognition of revenue by the percentage of completion method	(23 573)
Recognition of REPO transaction	(7 331)
Recognition of provision for trade and other receivables	(10 545)
Recognition of provision for inventory	(9 627)
Unrealized income and expense arising from intragroup transactions	(2 562)
Recognition and measurement effect of other differences between statutory reporting and IFRSs	(8 518)
Loss for the year	**(9 517)**

The effect of the adjustments to external sales of the operating segments to present in conformity with IFRSs as reported in the statement of comprehensive income is as follows:

	Year ended 31 December 2008
External sales for operating segments	1 034 991
External sales for other segments	169 949
External sales for segments	**1 204 940**
Recognition of revenue by the percentage of completion method	(23 573)
Other differences between statutory reporting and IFRSs	(6 746)
Sales in the statement of other comprehensive income	**1 174 621**

(in thousands of US dollars unless otherwise stated)

7. Segment Information (Continued)

The total assets and total liabilities of the operating segments presented by following:

	Izhorskiye Zavody OJSC	OMZ-Specstal LLC	IZ-KARTEKS LLC	Other	Total
Total assets for segments	435 473	198 990	104 039	1 229 483	1 967 985
Total liabilities for segments	318 161	160 347	93 062	943 718	1 515 288

	SKODA JS a.s.	PILSEN STEEL s.r.o.	Total
Total assets for segments	198 902	178 270	377 172
Total liabilities for segments	39 464	92 901	132 365

The effect of the adjustments to reportable segment liabilities as at 31 December 2008 to present in conformity with IFRSs as reported in statement of financial position is as follows:

Total assets for reportable segments	1 115 674
Total assets for other segments	1 229 483
Total assets for segments	**2 345 157**
Intercompany elimination of amounts due to and due from	(571 773)
Investments in subsidiaries	(334 475)
Netting-off of due to and due from under construction contracts	(143 922)
Unrealised income and expense arising from intragroup transactions	(2 562)
The effect of differences of standards for local financial statements and for financial statements according IFRS in measurement of fixed and intangible assets	69 575
The effect of differences of standards for local financial statements and for financial statements according IFRS in measurement of investment in joint venture	8 948
Bad debt provision	(28 458)
Provision for obsolete inventory	(10 041)
The effect of other differences of standards for local financial statements and for financial statements according IFRS	(57 467)
Total assets in statement of financial position	**1 274 982**

Total liabilities of reportable segments	703 935
Total liabilities of other segments	943 718
Total liabilities of segments	**1 647 653**
Intercompany elimination of amounts due to and due from	(571 773)
Netting-off of due to and due from under construction contracts	(143 922)
Provisions accrued according IFRS	4 192
The effect of other differences of standards for local financial statements and for financial statements according IFRS	40 416
Total liabilities in statement of financial position	**976 566**

In presenting information on the basis of geographical information, revenue is based on the geographical location of customers and non-current assets based on entities location:

	Sales Year ended 31 December 2008	Non-current assets 31 December 2008
Russian Federation	586 659	117 877
CIS	7 666	-
Asia	74 865	-
Europe	492 782	191 828
Other regions	12 649	-
Total	**1 174 621**	**309 705**

(in thousands of US dollars unless otherwise stated)

8. Balances and Transactions with Related Parties

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

The Company's immediate parent company is CJSC "Forpost-Management".

The party with ultimate control over the Company and the ultimate parent company is the Non-State Pension Fund "Gazfond". No publicly available financial statements are produced by the Company's immediate parent company or ultimate controlling party. An intermediate parent company, OJSC "Gazprombank", prepares consolidated financial statements that are publicly available.

As at 31 December 2009 CJSC "Forpost-Management" owns 44,41% of the Company's total outstanding common shares. CJSC "Forpost-Management" is able to exercise control over the Company's operating and financial policies so as to obtain the benefits from its activities by virtue of the fact that, adjusted for ordinary shares held in treasury stock held by the Group, they control in excess of 50% of the voting rights of the outstanding common shares.

In December 2009 the Group sold a 20,83% interest in OJSC "Mashinostroitelny zavod ZIO-Podolsk", a 15% interest in CJSC "Chemical Engineering Group" and a 44,05% interest in joint venture CJSC Uralmash to an entity under common control for US$ 66 163, US$ 35 696 andf US$ 18 114, respectively.

In November 2009 the Group acquired plant and equipement of US$ 74 455 from its immediate parent company. A financial lease liability associated with this acquisition has been recognised in these consolidated financial statements.

During the year ended 31 December 2008 the Group acquired a 20,83% interest in OJSC "Mashinostroitelny zavod ZIO-Podolsk" and a 10,698% interest in CJSC "Atomstroyexport" from the Group's immediate parent company and also acquired a 15% interest in CJSC "Chemical Engineering Group" from an entity under common control for consideration of US$ 57 998, US$ 32 344 and US$ 30 633 respectively. The Group has classified these investments as available-for-sale investments and they have been recognised at the cost of acquisition (Note 15).

During the year ended 31 December 2008, the Group sold its wholly owned subsidiaries, "Progress LLC", CHETENG CZ, s.r.o and TECHENG CZ s.r.o for total cash consideration of US$ 37 991 to entities under common control (Note 33).

The outstanding balances with the related parties were as follows:

	31 December 2009		31 December 2008		
	Immediate and intermediate parent company	**Entities under common control**	**Immediate and Intermediate parent company**	**Joint venture**	**Entities under common control**
Gross amount of trade receivables	4	2 327	83	877	3
Other receivables	1	7 927	11	44	1 942
Advances issued	863	28 502	-	208	2 711
Loans issued	-	15 750	-	5 930	17 957
Trade and other payables	(2)	(12 814)	(13)	(273)	(890)
Advances received	-	(1 226)	(584)	(85)	(36)
Loans and borrowings	(134 375)	(4 968)	(126 525)	-	(7 546)
Non-convertible bonds	(94 735)	-	-	-	-

Amounts due from related parties are unsecured.

Loans and borrowings received from related parties are presented by loans from OJSC "Gazprombank". The majority of these loans are denominated in RR.

(in thousands of US dollars unless otherwise stated)

8. Balances and Transactions with Related Parties (Continued)

The Group's other related party transactions are disclosed below:

	Year ended 31 December 2009			Year ended 31 December 2008	
	Intermediate parent company	Joint venture	Entities under common control	Joint venture	Entities under common control
Sales of goods	-	495	3 036	620	1 695
Proceeds from the disposal of available for sale investments	-	-	101 859	-	-
Purchases	(171)	(480)	(2 325)	-	-
Interest income	73	872	1 724	-	-
Interest expense	(19 141)	-	(8 618)	-	-
Proceeds from borrowing	250 821	-	-	-	-
Repayment of loans	(182 123)	-	-	-	-
Procceds from disposal of subsidiary	-	-	-	-	1 697
Procceds from disposal of joint venture	-	-	18 114	-	-

Key management compensation

The remuneration paid to the key management of the Group including members of the Board of Directors of the Company is determined for the period from one annual general meeting to the next. For the year ended 31 December 2009 the aggregate compensation to the directors included in general and administrative expenses in the consolidated income statement amounted to US$ 6 454 (31 December 2008: US$ 7 440). These figures include termination benefits in the amount of US$ 77 for the year ended 31 December 2009 (31 December 2008: US$ 1 558). All other benefits accrued to key management are short term employee benefits.

Guarantees

As at 31 December 2009, the Group has outstanding guarantees on loans of US$ 27 490 (31 December 2008: US$ 46 015) issued to the former joint venture and an entity under common control. Guarantee fees are determined on a case-by-case basis and are charged annually (Note 30). In addition, the Group has pledged 19,89% of the shares in its subsidiary OJSC Izhorskiye Zavody to secure a related party loan received of US$ 5 396 (Note 18).

Pricing policies

Certain related party transactions such as guarantees issued and acquisition and disposal of investments are based on prices determined with input from an intermediate parent company. Borrowings from related parties are denominated in Russian Roubles at interest rates of between 12,5-16,5 percent per annum.

9. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	31 December 2009	31 December 2008
RR denominated cash on hand and balances with banks	6 894	15 632
CZK denominated cash on hand and balances with banks	1 841	3 157
EURO denominated balances with banks	6 842	8 902
US$ denominated balances with banks	618	2 250
Other currency denominated balances with bank	-	291
Cash equivalents	116	6 266
Total cash and cash equivalents in the Statement of Financial Position	**16 311**	**36 498**
Bank overdraft	(4 278)	-
Total cash and cash equivalents in the Statement of Cash Flows	**12 033**	**36 498**

The effective annual interest rate of bank balances payable on demand is 0,1% (31 December 2008: 0,1%).

All bank balances and term deposits are neither past due nor impaired.

(in thousands of US dollars unless otherwise stated)

10. Trade and Other Receivables

	31 December 2009	31 December 2008
Trade receivables	207 415	106 087
Accounts due from customers for construction work	141 504	87 043
Forward foreign exchange contracts – cash flow hedges	513	117
VAT recoverable	34 935	39 514
VAT on advances from customers	66 337	48 072
Other taxes receivable	477	4 511
Other receivables	12 328	12 282
Total trade and other receivables	**463 509**	**297 626**
Advances to suppliers	66 155	80 402

Accounts receivable are denominated in RR except for US$ 10 209 denominated in US$, US$ 74 171 denominated in CZK, US$ 187 329 denominated in EUR as at 31 December 2009 and US$ 20 denominated in other (31 December 2008: US$ 22 518 denominated in US$, US$ 56 168 denominated in CZK, US$ 105 384 denominated in EUR$ and US$ 1 478 denominated in other).

As at 31 December 2009 trade and other accounts receivable of US$ 33 253 (31 December 2008: US$ 40 988) were individually impaired. The individually impaired receivables mainly relate to customers overdue for more than 6 months, which management does not expect to be collectible.

Provisions for impairment offset against the trade and other receivable balances and advances to suppliers are as follows:

	31 December 2009	31 December 2008
Trade receivables	(15 896)	(20 128)
Advances to suppliers	(1 860)	(2 139)
Other receivables	(13 763)	(18 721)
VAT recoverable	(1 734)	-
	(33 253)	**(40 988)**

Movements in the impairment provision for trade and other receivables and advances to suppliers are as follows:

	Trade receivables	Advanced to suppliers	Other receivables	VAT recoverable	Total
As at 1 January 2008	**(7 167)**	**(2 598)**	**(28 871)**	**-**	**(38 636)**
Provision charged	(16 684)	(203)	6 342	-	(10 545)
Provision used	128	308	41	-	477
Exchange differences	3 595	354	3 767	-	7 716
As at 1 January 2009	**(20 128)**	**(2 139)**	**(18 721)**	**-**	**(40 988)**
Provision charged	(10 887)	(275)	(101)	(1 734)	(12 997)
Provision used	10 096	162	45	-	10 303
Provision reversed	4 786	329	7 088	-	12 203
Exchange differences	237	63	(2 074)	-	(1 774)
As at 31 December 2009	**(15 896)**	**(1 860)**	**(13 763)**	**(1 734)**	**(33 253)**

As at 31 December 2009, trade receivables of US$ 15 427 (31 December 2008: US$ 22 305) were past due but not impaired. These relate to a number of unrelated customers with no recent history of default. The ageing of these trade receivables is as follows:

	31 December 2009	31 December 2008
Less than 6 months	15 427	22 305
From 6 to 12 months	-	-
More than 12 months	-	-
Total trade receivable past due not impaired	15 427	22 305

(in thousands of US dollars unless otherwise stated)

11. Inventories

	31 December 2009	31 December 2008
Raw materials	110 993	115 822
Work in progress	102 577	125 214
Finished goods	30 968	31 393
Goods in transit	7 590	3 011
Provision for obsolete inventory	(43 444)	(21 511)
Other	263	-
Total Inventories	**208 947**	**253 929**

Certain inventories included above totalling US$ 32 171 (31 December 2008: US$ 33 397) were provided as security under loan agreements (Note 18).

As at 31 December 2009 and 2008 there were no inventories carried at fair value less costs to sell.

Movements in the provision for obsolete inventory are as follows:

	Provision for obsolete inventory
As at 1 January 2008	**(15 408)**
Provision charged	(9 627)
Provision used	343
Exchange differences	3 181
As at 31 December 2008	**(21 511)**
Provision charged	(27 715)
Provision reversed	5 819
Provision used	443
Exchange differences	(480)
As at 31 December 2009	**(43 444)**

12. Other Current Financial Assets

	31 December 2009	31 December 2008
Derivatives	-	119
Short-term loans issued	22 371	25 202
Promissory notes	8 119	4 644
Provision for promissory notes	(8 119)	(4 644)
Restricted cash	13 485	20 072
Total Other Current Assets	**35 856**	**45 393**

Restricted cash of US$ 13 485 as at 31 December 2009 (31 December 2008: US$ 20 072) represents CZK-denominated cash advances received from customers that have been placed in a bank deposit and whose use is restricted to payments to specific suppliers as stipulated in the contracts with customers.

Promissory notes past due from the customer with a recent history of default were provided in full.

Movements in the impairment provision for promissory notes are as follows:

	Provision for promissory notes
As at 1 January 2008	**(4 988)**
Exchange differences	344
As at 31 December 2008	**(4 644)**
Provision charged	(3 853)
Provision reversed	558
Exchange differences	(180)
As at 31 December 2009	**(8 119)**

(in thousands of US dollars unless otherwise stated)

13. Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
Balance as at 1 January 2009					
Cost	142 471	230 818	20 619	41 232	435 140
Accumulated depreciation	(40 045)	(119 352)	(13 940)	-	(173 337)
Impairment loss recognised	(2 265)	(2 632)	(7)	-	(4 904)
Net book value as at 1 January 2009	**100 161**	**108 834**	**6 672**	**41 232**	**256 899**
Exchange differences	(691)	9 690	(386)	(887)	7 726
Additions	8 298	112 419	1 463	16 687	138 867
Transfers	1 978	21 931	63	(23 972)	-
Disposals	(563)	(186)	(2 660)	-	(3 409)
Impairment	(3 079)	(4 524)	-	-	(7 603)
Depreciation	(3 751)	(29 528)	(1 754)	-	(35 033)
Net book value as at 31 December 2009	**102 353**	**218 636**	**3 398**	**33 060**	**357 447**
Balance as at 31 December 2009					
Cost	159 522	350 938	55 604	33 060	599 124
Accumulated depreciation	(51 738)	(128 223)	(52 201)	-	(232 162)
Impairment loss recognised	(5 431)	(4 079)	(5)	-	(9 515)
Net book value as at 31 December 2009	**102 353**	**218 636**	**3 398**	**33 060**	**357 447**

Comparative information for 2008:

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
Balance as at 1 January 2008					
Cost	172 579	200 415	17 851	30 580	421 425
Accumulated depreciation	(37 507)	(103 489)	(10 254)	-	(151 250)
Impairment loss recognised	(2 715)	(3 254)	(12)	(22)	(6 003)
Net book value as at 1 January 2008	**132 357**	**93 672**	**7 585**	**30 558**	**264 172**
Exchange differences	(7 651)	(12 586)	(371)	(5 909)	(26 517)
Additions	9 865	37 796	4 898	38 081	90 640
Transfers	3 951	16 826	548	(21 325)	-
Disposals	(210)	(310)	(745)	(173)	(1 438)
Disposal of subsidiaries	(31 898)	(60)	(354)	-	(32 312)
Depreciation	(6 253)	(26 504)	(4 889)	-	(37 646)
Net book value as at 31 December 2008	**100 161**	**108 834**	**6 672**	**41 232**	**256 899**
Balance as at 31 December 2008					
Cost	142 471	230 818	20 619	41 232	435 140
Accumulated depreciation	(40 045)	(119 352)	(13 940)	-	(173 337)
Impairment loss recognised	(2 265)	(2 632)	(7)	-	(4 904)
Net book value as at 31 December 2008	**100 161**	**108 834**	**6 672**	**41 232**	**256 899**

Property, plant and equipment additions include US$ 74 455 of fixed assets acquired in November 2009 under a finance lease from the immediate parent company. The leased equipment secures these obligations.

As at 31 December 2009 bank borrowings are secured on property, plant and equipment with a carrying value of US$ 1 468 (31 December 2008: US$ 2 639) (Note 18).

During the year ended 31 December 2009, the Group performed a review of property, plant and equipment and recognised impairment of US$ 7 603, relating to assets that will no longer be used.

Land and buildings include 120 plots of land in Bolevec (Czech Republic) with a total area of 336 511 square meters, 36 plots in Plzen (Czech Republic) with a total area of 126 523 square meters and 22 plots in Kolpino (Russia) with a total area of 667 788 square meters.

The amount of borrowing costs capitalized during the period is US$ 472 (2008: US$ 0) using the capitalization rate of 14,25%.

(in thousands of US dollars unless otherwise stated)

14. Intangible Assets

The carrying value of intangible assets as at 31 December 2009 and 2008 was as follows:

	Trade mark	Other intangible assets	Total
Balance as at 1 January 2009			
Cost	24 801	34 542	59 343
Accumulated amortization	(3 248)	(9 565)	(12 813)
Net book value as at 1 January 2009	**21 553**	**24 977**	**46 530**
Additions	-	4 312	4 312
Disposals	-	(1 585)	(1 585)
Amortisation	(552)	(2 869)	(3 421)
Exchange differences	545	2 046	2 591
Closing net book value	**21 546**	**26 881**	**48 427**
Balance as at 31 December 2009			
Cost	25 276	39 888	65 164
Accumulated amortisation	(3 730)	(13 007)	(16 737)
Net book value as at 31 December 2009	**21 546**	**26 881**	**48 427**

Comparative information for 2008:

	Goodwill	Trade mark	Other intangible assets	Total
Balance as at 1 January 2008				
Cost	1 255	33 200	25 662	60 117
Accumulated amortization	-	(2 369)	(8 502)	(10 871)
Net book value as at 1 January 2008	**1 255**	**30 831**	**17 160**	**49 246**
Additions	-	301	12 640	12 941
Disposals	-	-	(121)	(121)
Amortisation	-	(1 131)	(1 591)	(2 722)
Disposal of subsidiaries	(1 524)	(8 021)	(26)	(9 571)
Exchange differences	269	(427)	(3 085)	(3 243)
Closing net book value	**-**	**21 553**	**24 977**	**46 530**
Balance as at 31 December 2008				
Cost	-	24 801	34 542	59 343
Accumulated amortisation	-	(3 248)	(9 565)	(12 813)
Net book value as at 31 December 2008	**-**	**21 553**	**24 977**	**46 530**

Trade marks acquired before 2008 consist of license agreements for trade marks “ŠKODA” used by ŠKODA JS a.s. and PILSEN STEEL s.r.o. (SKODA Kovarny s.r.o. before the legal merger of SKODA Kovarny s.r.o. and SKODA Hute s.r.o. in the middle of 2007). The fair values of these licensed agreements for trade marks were evaluated by American Appraisal in 2004 using the income approach, referred to as the “relief from royalty” method. No indications of impairments were identified by the Group as of the reporting date for these intangible assets.

In 2008, certain trade marks were disposed of in the sale of CHETENG ENGINEERING s.r.o. (Note 33).

Internally developed intangible assets mostly consist of patented and non-patented technologies.

15. Other Non-Current Financial Assets

	31 December 2009	31 December 2008
Long-term loans issued	68 307	69 976
Available-for-sale investments stated at cost	36 296	125 088
Forward foreign exchange contracts – cash flow hedges	-	26
Other accounts receivable	17	-
Total other non-current financial assets	**104 620**	**195 090**

(in thousands of US dollars unless otherwise stated)

15. Other Non-Current Financial Assets (Continued)

Available-for-sale investments stated at cost

Entity	Country of Incorporation	31 December 2009	% of share capital	31 December 2008	% of share capital
OJSC Mashinostroitelny zavod "ZIO-Podolsk"[1]	Russian Federation	-	-	57 998	21
CJSC "Atomstroyexport" [2]	Russian Federation	31 421	11	32 344	11
CJSC "Chemical Engineering Group"	Russian Federation	-	-	30 633	15
CJSC "Sezam"	Russian Federation	468	22	481	22
UJV Rez a.s.	Europe	2 470	17	2 445	17
Other	Russian Federation	1 937	-	1 187	-
		36 296		**125 088**	

The Group acquired a 20,83% interest in OJSC "Mashinostroitelny zavod "ZIO-Podolsk" in September 2008 from its intermediate parent company. Although the Group held slightly in excess of 20% of the voting rights, management concluded that they could not exercise significant influence over the operating and financing policies of this entity.

In December 2009 the Group sold a 20,83% interest in OJSC "Mashinostroitelny zavod ZIO-Podolsk" and a 15% interest in CJSC "Chemical Engineering Group" to an entity under common control.

Available-for-sale investments stated at cost as at 31 December 2009 comprise of unquoted equity securities in the Nuclear Power Construction/Services. Available-for-sale investments stated at cost as at 31 December 2008 also included unquoted securities in the Chemical Machinery and Specialist Steel Industries. There is no market for these investments and there have not been any recent transactions with third parties that provide evidence of fair value. In addition, discounted cash flow techniques could not be applied due to a lack of financial information.

The Federal Law "On Joint Stock Companies" states that only shareholders with a 25% ownership interest or more have the right to request detailed financial information from the entity, in which they hold their investment. As there are indicators of impairment as a consequence of the decline in equity markets after the acquisition of these investments, management has requested financial information from the entities in which the Group holds minority stakes to enable management to assess whether the Group's investments could be impaired or not. However, management has not been able to obtain sufficient financial information prior to the date of the issuance of these consolidated financial statements from the entities themselves or from other public sources and, consequently, was unable to determine whether the Group's investments in CJSC "Atomstroyexport" was impaired or not as at 31 December 2009 (31 December 2008: investments in OJSC "Mashinostroitelny zavod "ZIO-Podolsk" and CJSC "Atomstroyexport").

16. Other Non-Current Assets

	31 December 2009	31 December 2008
Advances issued	20 810	4 751
Non-current accounts receivable	1 953	-
Non-current accounts receivable due from related parties	-	69
Other non-current assets	-	1 456
Total Other Non-Current Assets	**22 763**	**6 276**

17. Trade and Other Accounts Payable

	31 December 2009	31 December 2008
Trade payables	224 450	138 526
Billings in excess of cost and recognized income	45 544	2 897
Derivatives	1 954	20 100
Other payables and accrued expenses	12 241	29 140
Total financial liabilities	**284 189**	**190 663**
Payroll accounts payable	15 259	13 130
Provision for unused vacation	4 783	4 536
Deferred VAT	12 701	3 398
Advances received	193 543	198 047
Short-term portion of long-term taxes payable (Note 19)	2 335	203
Other taxes payable	5 633	5 280
Total trade and other accounts payable	**518 443**	**415 257**

(in thousands of US dollars unless otherwise stated)

17. Trade and Other Accounts Payable (Continued)

As at 31 December 2009 accounts payable were primarily denominated in RR except for US$ 5 966 denominated in US$, US$ 87 395 denominated in CZK, US$ 178 379 denominated in EUR and US$ 6 denominated in other currencies (31 December 2008: US$ 15 373 denominated in US$, US$ 153 928 denominated in CZK, US$ 88 922 denominated in EUR and US$ 330 denominated in other currencies).

18. Borrowings

Short-term loans and borrowings

	31 December 2009	31 December 2008
US$ denominated fixed rate	-	137 090
EURO denominated fixed rate	57	12 934
EURO denominated floating rate	13 931	14 856
CZK denominated floating rate	4 278	4
RR denominated fixed rate	80 900	48 192
	99 166	**213 076**
Add: current portion of long-term debt	5 395	7 515
Short-term finance lease liabilities	16 384	1 453
Non-convertible bonds	-	135 576
Total short-term borrowings	**120 945**	**357 620**

The nominal interest rates at the balance sheet dates were as follows:

	31 December 2009	31 December 2008
US$ denominated fixed rate	-	10,45%
EURO denominated fixed rate	3,80%	9,38%
EURO denominated floating rate	EURIBOR + 1 %	5,54%
CZK denominated floating rate	2,20%	1,84%
RR denominated fixed rate	13,21%	12,72%
Non-convertible bonds	-	14,05%

As at 31 December 2009 short-term borrowings totalling US$ 5 395 (31 December 2008: US$ 122 308) are secured on the property and inventory of the Group. The carrying amount of pledged inventory, property, plant and equipment is disclosed in Notes 11 and 13, respectively.

The carrying amounts and fair values of short-term non-convertible bonds are as follows:

	31 December 2009		31 December 2008	
	Carrying amounts	**Fair values**	**Carrying amounts**	**Fair values**
Non-convertible bonds	-	-	135 576	124 678

As at 31 December 2009 non-convertible bonds are recognised as long-term debt.

Changes of carrying amount of non-convertible bonds for years 2009 and 2008 are as follows:

Balance at 1 January 2008	**94 086**
Issuance	67 194
Amortization of discount	2 971
Effect of exchange rate changes	(28 675)
Balance at 31 December 2008	**135 576**
Repayment	(28 370)
Amortization of discount	425
Effect of exchange rate changes	(5 239)
Balance at 31 December 2009	**102 392**

(in thousands of US dollars unless otherwise stated)

18. Borrowings (Continued)

Long-term borrowings

	31 December 2009	31 December 2008
US$ denominated fixed rate	-	19
RR denominated fixed rate	133 550	74 919
RR denominated floating rate	-	142
EURO denominated fixed rate	68 016	71 393
EURO denominated floating rate	4 199	3 162
Long-term finance lease liabilities	59 163	2 963
Non-convertible bonds	102 392	-
Total long-term borrowings	**367 320**	**152 598**

The carrying amounts and fair values of long-term borrowings and non-convertible bonds are as follows:

	31 December 2009		31 December 2008	
	Carrying amounts	Fair values	Carrying amounts	Fair values
Non-convertible bonds	102 392	102 392	-	-
Long-term finance lease liabilities	59 163	59 163	2 963	2 963
Long-term borrowings	205 765	214 936	149 635	143 839

The nominal interest rates at the balance sheet dates were as follows:

	31 December 2009	31 December 2008
US$ denominated fixed rate	-	9,5%-10,5%
RR denominated fixed rate	14,10%	9,39%
RR denominated floating rate	-	14,73%
EURO denominated fixed rate	10,85%	11,38%
EURO denominated floating rate	EURIBOR + 1,15%	5,63%
Long-term finance lease liabilities	26,1%-26,9%	26,1%
Non-convertible bonds	13,00%	-

As at 31 December 2009, long-term borrowings totalling US$ 8 892 (31 December 2008: US$ 78 203) are secured on the property and inventory of the Group as well as shares of one subsidiary (Note 32). The carrying amount of pledged inventory and property, plant and equipment is disclosed in Notes 11 and 13, respectively.

In December 2009 the Group repurchased 19,89% of the shares in its subsidiary OJSC Izhorskiye Zavody under a contract with a related party which was concluded in 2008 and specified to sell and repurchase the shares within one year for consideration of approximately US$ 8 570.

In December 2009, the Group again entered into a contract with a related party to sell and repurchase 19,89% of the shares in its subsidiary OJSC Izhorskiye Zavody for consideration of approximately US$ 5 124. The contract specifies that the shares should be re-purchased within one year for consideration of approximately US$ 5 613. This transaction has been accounted for as a secured financing transaction in the consolidated financial statements with the shares pledged under sale and repurchase agreements accounted for as investments in subsidiaries and a liability recognised for the fair value of the proceeds received. The difference between the fair value of the proceeds received and the repurchase price represents interest expense and is recognised in the consolidated income statement over the terms of the repurchase agreement using the effective interest method.

As at 31 December 2009 long-term loans had the following maturity profile:

	2010	2011	2012 and after	Total
US$ denominated fixed rate	-	-	6	6
RR denominated fixed rate	-	110 215	23 306	133 521
EURO denominated fixed rate	-	-	72 238	72 238
	-	**110 215**	**95 550**	**205 765**
Long-term finance lease liabilities	-	10 148	49 015	59 163
Non-convertible bonds	-	-	102 392	102 392

(in thousands of US dollars unless otherwise stated)

18. Borrowings (Continued)

As at 31 December 2008 long-term loans had the following maturity profile:

	2009	2010	2011 and after	Total
US$ denominated fixed rate	-	-	19	19
RR denominated fixed rate	-	65 980	8 939	74 919
RR denominated floating rate	-	142	-	142
EURO denominated fixed rate	-	71 393	-	71 393
EURO denominated floating rate	-	3 162	-	3 162
	-	**140 677**	**8 958**	**149 635**
Long-term finance lease liabilities	-	1 111	1 852	2 963

Finance lease liabilities are payable as follows:

	31 December 2009		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**
Less than one year	31 617	15 233	16 384
Between one and five years	80 055	34 044	46 011
More than five years	16 747	3 595	13 152
Total	**128 419**	**52 872**	**75 547**

	31 December 2008		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**
Less than one year	2 536	1 083	1 453
Between one and five years	4 350	1 387	2 963
More than five years	-	-	-
Total	**6 886**	**2 470**	**4 416**

19. Long-Term Taxes Payable

Long-term taxes payable mainly comprise various taxes payable to the state and local budgets and non-budget funds of the Russian Federation which were previously past due and which have been restructured to be repaid over a period of up to 10 years.

	31 December 2009	31 December 2008
Current	2 335	203
1 to 2 years	148	2 727
Total restructured	**2 483**	**2 930**
Less: current portion of taxes payable (Note 17)	(2 335)	(203)
Total long term taxes payable	**148**	**2 727**

As at 31 December 2009 long-term taxes payable bore an effective interest rate of 5,5 percent per annum.

The fair value of long-term taxes payable as at 31 December 2009 totalled US$ 148 (31 December 2008: US$ 2 493). The fair value of long-term taxes payable is estimated by discounting the future cash outflows in accordance with the terms of restructured tax agreements at the market interest rate available to the Group at the balance sheet date of 9,4 percent.

20. Other Long-Term Liabilities

	31 December 2009	31 December 2008
Trade payables, long-term	4 732	4 492
Derivatives	-	7
Billings in excess of cost and recognized income - non-current portion	1 124	-
Other long-term liabilities	3 673	4 594
	9 529	**9 093**

(in thousands of US dollars unless otherwise stated)

21. Equity

	Number of outstanding shares (thousands)		Number of treasury shares (thousands)		Share capital		Treasury shares	
	Preference shares	Ordinary shares	Preference shares	Ordinary shares	Preference shares	Ordinary shares	Preference shares	Ordinary shares
As at 1 January 2008	**2 750**	**35 480**	**(2 720)**	**(4 551)**	**34**	**440**	**(28 668)**	**(21 643)**
Currency translation	-	-	-	-	(6)	(72)	4 717	3 561
As at 31 December 2008	**2 750**	**35 480**	**(2 720)**	**(4 551)**	**28**	**368**	**(23 951)**	**(18 082)**
Currency translation	-	-	-	-	(1)	(11)	685	516
As at 31 December 2009	**2 750**	**35 480**	**(2 720)**	**(4 551)**	**27**	**357**	**(23 266)**	**(17 566)**

As at 31 December 2009 the authorized number of ordinary and preference shares totalled 70 700 thousand and 2 750 thousand (31 December 2008: 70 700 thousand and 2 750 thousand), respectively, both with a nominal value per share of RR 0,1.

As at 31 December 2009 the issued number of ordinary and preference shares totalled 35 480 thousand and 2 750 thousand (31 December 2008: 35 480 thousand and 2 750 thousand).

Preference shares represent cumulative preferred stock without voting rights, except in certain circumstances pertaining to the liquidation or reorganization of the Company, or changes in the charter documents. They earn dividends at 12% per annum of their nominal value, and have a liquidation value of RR 0,1 per share. On liquidation, after the liability for cumulative unpaid dividends and the liquidation value of preference shares have been satisfied, both ordinary and preference shares holders participate equally in the distribution of the remaining net assets.

Treasury shares represent ordinary and preference shares owned by subsidiaries. In accordance with the Company's corporate governance policy these shares represent non-voting stock.

Dividends

Russian statutory financial statements are the basis for the Company's profit distribution and other appropriations. The basis of distribution is defined by the Russian legislation as a company's undistributed profit. The undistributed profit recognized in the published Russian statutory financial statements of the Company as at 31 December 2009 amounts to US$ 5 097 (31 December 2008: US$ 4 080).

In 2009 the Company did not declare and pay any dividends to holders of ordinary shares.

22. Construction Contracts

The revenues and gross margin recognised on long-term-contracts amounted to:

	Year ended 31 December 2009	Year ended 31 December 2008
Contract revenue	375 703	345 956
Contract costs	(272 823)	(320 447)
Gross margin	**102 880**	**25 509**

The Group's financial position with respect to construction contracts is disclosed in Notes 10, 17 and 20.

Construction contracts in progress:

	Year ended 31 December 2009	Year ended 31 December 2008
Contract costs incurred and recognized profits (less losses) to date	1 200 082	980 855
Advances received on construction contracts	29 883	103 583

Advances received on construction contracts were netted off with accrued receivables in accordance with IAS 11 "Construction Contracts".

Retentions due from customers with a face value to US$ 16 508 as at 31 December 2009 (31 December 2008: US$ 16 508) have not been recognised as they cannot be reliably measured due to significant uncertainty in respect of the probability and timing of collection of these amounts receivable.

(in thousands of US dollars unless otherwise stated)

23. Cost of Sales

	Year ended 31 December 2009	Year ended 31 December 2008
Changes in inventories of finished goods and work in progress	16 067	(26 461)
Materials and components used	261 687	508 998
Labour costs	130 446	162 236
Services, including sub-contracting costs	146 827	157 038
Gas and fuel	65 908	75 423
Depreciation	32 480	32 191
Amortisation of intangible assets	1 693	1 759
Change in provision for obsolete inventory	21 896	9 627
Other	10 359	11 261
Total cost of sales	**687 363**	**932 072**

Management has reclassified the change in provisions for obsolete inventory from other operating expense to cost of goods sold as this more appropriately reflects the nature of the expense. Comparative information has been re-presented for consistency.

Total labour costs included in all income statement captions amounted to US$ 183 187 (2008: US$ 230 128).

	Year ended 31 December 2009	Year ended 31 December 2008
Short-term employee benefits	171 388	216 811
Termination payments	3 036	1 864
Contributions to the State Pension Fund	8 763	11 453
Total labour costs	**183 187**	**230 128**

24. Selling Expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Transportation	9 557	13 360
Services	7 396	10 816
Labour costs	10 403	8 756
Other	3 389	3 409
Total selling expenses	**30 745**	**36 341**

25. General and Administrative Expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Labour costs	42 338	59 136
Services	18 626	19 439
Taxes	3 323	5 858
Depreciation	2 404	2 318
Amortisation of intangibles	1 720	1 632
Administration overheads	11 386	8 788
Total general and administrative expenses	**79 797**	**97 171**

26. Other Operating Income and Expense

Other Operating Income

	Year ended 31 December 2009	Year ended 31 December 2008
Gain on disposal of subsidiaries, net (Note 33)	-	801
Gain on disposal of property, plant and equipment	361	559
Gain from sale of investments	-	837
Gain on disposal of other non-current assets	3	613
Gain on derecognition of financial liability	114	986
Gain from sale of securities	15 025	-
Other income	1 831	7 928
Total other operating income	**17 334**	**11 724**

(in thousands of US dollars unless otherwise stated)

26. Other Operating Income and Expense (Continued)

Other Operating Expense

	Year ended 31 December 2009	**Year ended 31 December 2008**
Change in provision for impairment of receivables and other investments	(3 884)	(10 545)
Impairment of fixed and intangible assets	(7 603)	-
Rent	(1 965)	-
Fines and penalties under agreements	(7 487)	-
Loss from sale of securities	(207)	-
Other losses	(4 113)	(2 788)
Total other operating expenses	**(25 259)**	**(13 333)**

27. Finance Income and Expense

	Year ended 31 December 2009	**Year ended 31 December 2008**
Interest income on loans issued	9 750	25 085
Dividend income from other investments	46	-
Net change in fair value of financial assets at fair value through profit or loss	-	97
Finance income	**9 796**	**25 182**
Interest expense on financial liabilities measured at amortised cost	(65 127)	(57 380)
Net foreign exchange loss	(4 412)	(7 276)
Finance expense	**(69 539)**	**(64 656)**
Net finance expense recognised in statement of comprehensive income	**(59 743)**	**(39 474)**

Finance expenses, recognized directly in other comprehensive income

	Year ended 31 December 2009	**Year ended 31 December 2008**
Effective portion of gains or losses on hedging instruments used in cash flow hedges, net of tax	2 618	(15 593)
Gains or losses on hedging instruments transferred to profit or loss, net of tax	12 613	(12 212)
Foreign currency translation differences for foreign operations	591	(26 135)
Income tax on income and expense recognised directly in other comprehensive income	(3 064)	5 541
Finance income/(expenses) recognised directly in other comprehensive income, net of tax	**12 758**	**(48 399)**
Attributable to:		
Shareholders of the Company	17 059	(48 399)
Minority interest	(4 301)	-
Finance expenses recognised directly in other comprehensive income, net of tax	**12 758**	**(48 399)**

28. Income Tax

	Year ended 31 December 2009	**Year ended 31 December 2008**
Income tax expense – current	(10 345)	(25 056)
Deferred tax income/(expense) – origination and reversal of temporary differences	11 771	(6 841)
Income tax benefit/(expense)	**1 426**	**(31 897)**

(in thousands of US dollars unless otherwise stated)

28. Income Tax (continued)

The income before taxation for financial reporting purposes is reconciled to the tax expense as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Profit before taxation from continuing operations	1 399	67 954
Theoretical tax charge at statutory rate of 20% (2008: 24%)	280	16 309
Effect of different tax rates in other countries	80	5 646
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable and non-deductible items	(1 786)	9 875
Effect of changes in tax rate	-	67
Income tax (benefit)/expense	**(1 426)**	**31 897**

The statutory income tax rate for companies of the Group registered in Russian Federation for the years 2009 and 2008 was 20% and 24%, respectively. Effective from 1 January 2009, the rate in Russian Federation has changed to 20%.

The statutory income tax rate for subsidiaries of the Group registered in Czech Republic for the 2009 and 2008 assessment periods was 20% and 21%, respectively. Effective from 1 January 2009, the rate in Czech Republic has changed to 20% and effective from 1 January 2010 to 19%.

	31 December 2008	Disposed in 2009	Differences recognition and reversal	Exchange difference	Deferred tax recognised on other comprehensive income	31 December 2009
Tax effects of deductible temporary differences:						
Property, plant and equipment	1 296	-	2 126	53	-	3 475
Provision for impairment of investments	110	-	(114)	4	-	-
Accounts payable and accruals	2 233	(3)	2 196	43	-	4 469
Inventories	1 708	-	10 578	442	-	12 728
Provision for inventory	3 976	-	6 630	238	-	10 844
Accounts receivable recognized using percentage of completion method	9 356	-	(4 999)	(711)	-	3 646
Provision for impairment of receivables	2 553	(3)	(76)	(83)	-	2 391
Loss carry forward	6 820	-	(215)	(2)	-	6 603
Other	6 207	-	1 258	(111)	(3 303)	4 051
Total deferred tax assets	**34 259**	**(6)**	**17 384**	**(127)**	**(3 303)**	**48 207**
Set off of tax	(24 124)					(28 015)
Net deferred tax assets	**10 135**					**20 192**
Tax effects of taxable temporary differences:						
Property, plant and equipment	(16 181)	1	6 151	(819)	-	(10 848)
Intangible assets	(810)	-	(1 730)	(14)	-	(2 554)
Inventories	(7 513)	-	38	99	-	(7 376)
Accounts receivable	(3 108)	-	(11 552)	(466)	-	(15 126)
Accounts receivable recognized using percentage of completion method	(3 413)	-	2 703	288	-	(422)
Provision for impairment of receivables	(5 972)	-	(746)	136	-	(6 582)
Provision for repairs	(7 687)	-	1 337	(42)	-	(6 392)
Accounts payable	(256)	-	159	(172)	-	(269)
Other	(3 380)	4	(1 973)	7	239	(5 103)
Total deferred tax liabilities	**(48 320)**	**5**	**(5 613)**	**(983)**	**239**	**(54 672)**
Set off of tax	24 124					28 015
Net deferred tax liabilities	**(24 196)**					**(26 657)**

(in thousands of US dollars unless otherwise stated)

28. Income Tax (Continued)

Comparative information for year 2008:

	31 December 2007	Disposed in 2008	Differences recognition and reversal	Exchange difference	Deferred tax recognised on other comprehensive income	31 December 2008
Tax effects of deductible temporary differences:						
Property, plant and equipment	1 155	-	392	(251)	-	1 296
Provision for impairment of investments	686	-	(548)	(28)	-	110
Accounts payable and accruals	3 497	-	(949)	(315)	-	2 233
Inventories	17 771	-	(15 531)	(532)	-	1 708
Provision for inventory	2 959	-	1 577	(560)	-	3 976
Accounts receivable recognized using percentage of completion method	1 604	-	9 406	(1 654)	-	9 356
Provision for impairment of receivables	3 871	-	(880)	(438)	-	2 553
Loss carry forward	9 353	-	(1 176)	(1 357)	-	6 820
Other	9 852	(1)	(7 467)	(1 058)	4 881	6 207
Total deferred tax assets	**50 748**	**(1)**	**(15 176)**	**(6 193)**	**4 881**	**34 259**
Set off of tax	(37 244)					(24 124)
Net deferred tax assets	**13 504**					**10 135**
Tax effects of taxable temporary differences:						
Property, plant and equipment	(19 372)	1 650	502	1 039	-	(16 181)
Intangible assets	(1 964)	-	982	172	-	(810)
Inventories	(8 197)	-	(786)	1 470	-	(7 513)
Accounts receivable	(22)	-	(3 307)	221	-	(3 108)
Accounts receivable recognized using percentage of completion method	(17 257)	-	13 008	836	-	(3 413)
Provision for impairment of receivables	(4 497)	-	(2 618)	1 143	-	(5 972)
Provision for repairs	(7 190)	-	(763)	266	-	(7 687)
Accounts payable	(3 023)	-	2 552	215	-	(256)
Other	(4 546)	1 646	(1 235)	95	660	(3 380)
Total deferred tax liabilities	**(66 068)**	**3 296**	**8 335**	**5 457**	**660**	**(48 320)**
Set off of tax	37 244					24 124
Net deferred tax liabilities	**(28 824)**					**(24 196)**

In the context of the Group’s current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, the deferred tax asset of one company of the Group cannot be offset against the deferred tax liability of another company.

As at 31 December 2009 the Group has not recognized a deferred tax liability in respect of US$ 39 703 (31 December 2008: US$ 26 060) of temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

(in thousands of US dollars unless otherwise stated)

29. Provisions for Liabilities and Charges

	Provision for loss-making contracts	Provision for warranties	Provision for legal claims	Provision for spoilage	Other provisions	Total
As at 1 January 2009	**-**	**2 909**	**-**	**-**	**3 096**	**6 005**
(Used)/ charge	-	7 342	1 097	-	1 462	9 901
Exchange differences	-	2 024	67	-	(281)	1 810
As at 31 December 2009	**-**	**12 275**	**1 164**	**-**	**4 277**	**17 716**
Less amount included in other long-term liabilities	-	(2 133)	-	-	-	(2 133)
As at 31 December 2009	**-**	**10 142**	**1 164**	**-**	**4 277**	**15 583**

Comparative information for year 2008:

	Provision for loss-making contracts	Provision for warranties	Provision for legal claims	Provision for spoilage	Other provisions	Total
As at 1 January 2008	**696**	**3 843**	**215**	**328**	**1 595**	**6 677**
(Used)/ charge	(687)	1 057	(212)	(324)	2 330	2 164
Exchange differences	(9)	(231)	(3)	(4)	(829)	(1 076)
As at 31 December 2008	**-**	**4 669**	**-**	**-**	**3 096**	**7 765**
Less amount included in other long-term liabilities	-	(1 760)	-	-	-	(1 760)
As at 31 December 2008	**-**	**2 909**	**-**	**-**	**3 096**	**6 005**

Provision for loss-making contracts

Provisions for expected losses on loss-making contracts are recognised when the expected revenues are lower than the expected costs to complete. An outstanding balance of provisions for loss-making contracts as at 31 December 2007 was fully utilised at the amount of US$ 696 during the year 2008. At the end of the year 2009 there is no provision for loss-making contracts.

Provision for warranties

The Group provides warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of US$ 12 275 (2008: US$ 4 669) has been recognised as at 31 December 2009 for expected warranty claims based on past experience of the level of repairs and returns.

Provision for legal claims

The amounts shown comprise gross provisions in respect of certain legal claims brought against the Group by customers. The balance as at 31 December 2009 is US$ 1 164.

Provision for spoilage

Provision for spoilage is recognized when there is a significant probability of spoilage in the production of a new product. The balance as at 31 December 2007 of US$ 328 was fully utilised during 2008. At the end of the year 2009 there is no provision for loss-making contracts.

30. Contingencies, Commitments and Operating Risks

Capital commitments

As at 31 December 2009 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for US$ 32 665 (31 December 2008: US$ 133 862).

Taxation

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe penalties, fines and interest charges. Recent events in the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and enforcement of tax legislation.

The Group adopts interpretations in areas where the taxation system is uncertain that may reduce the overall taxes payable of the Group. Such tax positions may come under heightened scrutiny. Should the Russian tax authorities be successful in challenging such arrangements, management has estimated that the Group would be subject to additional value added tax and profits taxes of approximately US$ 7 million (2008: US$ 11 million). Management has not provided any amounts in respect of such obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

(in thousands of US dollars unless otherwise stated)

30. Contingencies, Commitments and Operating Risks (Continued)

Insurance policies

The Group insures all significant property and work-in-progress and shipments in relation to significant contracts. As at 31 December 2009, most of the Group's property is insured.

Environmental matters

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

Legal proceedings

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

Guarantees

The Group has guaranteed loans issued to third parties. The total amount of guarantees is US$ 0 (31 December 2008: US$ 3 547).

The Group has guaranteed loans issued to related parties. The total amount of guarantees is US$ 27 490 (31 December 2008: US$ 46 015).

The Group's borrowings and its fulfilment of contractual obligations were secured by third party guarantees in the amount of US$ 66 941 (31 December 2008: US$ 113).

31. Earnings per Share

Earnings per share is calculated by dividing the net income attributable to participating shareholders by the weighted average number of ordinary shares in issue during the period, excluding the average number of ordinary shares purchased by the Group and held as treasury shares (Note 21).

Earnings per share are calculated as follows:

Basic earnings per share

	Year ended 31 December 2009	**Year ended 31 December 2008**
Weighted average number of ordinary shares outstanding (thousands)	35 480	35 480
Adjusted for weighted average number of treasury shares (thousands)	(4 551)	(4 551)
Weighted average number of ordinary shares in issue (thousands)	30 929	30 929
Profit from continuing operations attributable to the ordinary equity holders of the parent entity	6 526	34 457
Profit per share from continuing operations	0,2110	1,1141
Loss from discontinued operations attributable to the ordinary equity holders of the parent entity	(19 855)	(45 574)
Loss per share from discontinued operations	(0,6420)	(1,4735)
Loss for the year attributable to the Group's equity holders	(13 329)	(11 117)
Basic earnings per share	(0,4310)	(0,3594)

Diluted earnings per share

There have been no transactions that would result in a dilution of earnings per share.

(in thousands of US dollars unless otherwise stated)

32. Principal Subsidiaries

The principal subsidiaries consolidated within the Group and the share in subsidiaries held by the Group are as follows:

Entity	Country of Incorporation	Activity	31 December 2009 % of share capital	31 December 2008 % of share capital
OJSC Izhorskiye Zavody ("Izhorskiye Zavody") [1]	Russia	Production of equipment for nuclear power plants and mining equipment	80,1	80,1
OMZ SpecStal ("SpecStal") LLC	Russia	Production of specialty steels	100	100
OMZ Gornoe oborudovanie i tehnologii ("GoiT") LLC	Russia	Engineering and sales of mining equipment	100	100
CJSC Komplekt-Atom-Izhora	Russia	Engineering and installation of nuclear power plant equipment	100	100
IZ-Kartex LLC [2]	Russia	Production of mining equipment	80,1	80,1
OMZ LLC	Russia	Corporate services	100	100
IZ-ZMK LLC [2]	Russia	Production of steel constructions	80,1	80,1
OMZ LP LLC	Russia	Production of steel mouldings	84,2	84,2
ŠKODA JS a.s.	Czech Republic	Production of equipment for nuclear power plants	100	100
PILSEN STEEL s.r.o.	Czech Republic	Production of specialty steels	100	100
MK Uralmash CJSC [3]	Russia	Production of drilling, mining and metallurgical equipment	5,95	50

[1] 40% of the Groups' shares in Izhorskiye Zavody are pledged as collateral under long-term bank loan denominated in RR and 19,89% are pledged as collateral under repurchase agreement to obtain a short-term loan denominated in RR (Note 18).

[2] The % of share capital disclosed above is the effective ownership interest attributable to shareholders of the Company. The Company is able to control 100% of the shares of these subsidiaries.

[3] In December 2009 the Group sold a 44,05% interest in joint venture CJSC Uralmash for US$ 18 114 and lost the ability to exercise joint control.

33. Business Combinations and Disposals

During the years ended 31 December 2009 and 2008, the Group has not acquired any new businesses.

Disposals in 2009

Investment in the joint venture Machine-Building Corporation Uralmash, CJSC (or CJSC Uralmash)

On 21 December 2009 the Group sold a 44,05% interest in joint venture CJSC Uralmash the consideration for US$ 18 114 to a related party. The investment in the joint venture CJSC Uralmash, accounted for using the equity method, had a carrying value of nil at the date of disposal, and the Group recognised a gain from the sale of the joint venture for US$ 18 114 (RR 575 million) in the profit or loss.

Effect of disposals on cash flow from investing activities

Cash proceeds	18 114
Cash inflows from the sale of subsidiaries	**18 114**

The interest in the jointly controlled entity owned by the Group is as follows:

	31 December 2008
Current assets	121 282
Property, plant and equipment	90 061
Other non-current assets (including goodwill)	10 213
Current liabilities	(130 163)
Non-current liabilities	(50 397)
Net assets owned by the Group	**40 996**

(in thousands of US dollars unless otherwise stated)

33. Business Combinations and Disposals (Continued)

Disposals in 2009 (Continued)

Result from operations for the period ended 21 December 2009 and year ended 31 December 2008 of the jointly controlled entity is as follows:

	Period ended 21 December 2009	Year ended 31 December 2008
Revenue	114 252	170 045
Operating and other expenses	(155 427)	(200 583)
Loss before tax	**(41 175)**	**(30 538)**
Income tax expense	2 948	(1 395)
Unrecognized loss	258	-
Loss attributable to the Group	**(37 969)**	**(31 933)**

Changes in the carrying amount of equity investment are as follows:

Investment in Uralmash CJSC as at 31 December 2007	**95 218**
Loss attributable to the Group	(31 933)
Impairment of investment	(13 641)
Exchange difference	(8 648)
Investment in Uralmash CJSC as at 31 December 2008	**40 996**
Loss attributable to the Group for the period ended 21 December 2009	(37 969)
Exchange difference	(3 028)
Investment in Uralmash CJSC as at 21 December 2009	**-**

The Group determined the recoverable amount of its investment in Uralmash CJSC in order to assess whether the investment is impaired as of 31 December 2008. The recoverable amount was determined with the assistance of independent appraisers.

The following key assumptions were used in determining the recoverable amounts of the joint venture:

- Cash flows were projected based on actual operating results and the ten-year business plan.
- The joint venture includes two major production plants: OJSC Uralmashzavod and OJSC ORMETO-UUMZ. The anticipated annual production growth included in the cash flow projections for OJSC Uralmashzavod and OJSC ORMETO-UUMZ were 12-51% and 0-14% for the years 2009 to 2014, respectively.
- Management planned to achieve stable production volume the seventh year of the business plan.
- Cash flows for a further four years were extrapolated assuming no significant growth in production, and revenue and expenses increasing in line with inflation.
- Discount rates of 19,2% and 18,2% were applied to the cash flows of OJSC Uralmashzavod and OJSC ORMETO-UUMZ, respectively. The discount rate was estimated based on an industry average weighted average cost of capital. The discount rate for OJSC Uralmashzavod also included an additional risk-premium of 1% to reflect the risks associated with significant projected growth embedded in the business plan.
- A terminal value was derived at the end of the 10-year interim period. A terminal growth rate of 3,5% was considered in estimating the terminal value for the plants.

The values assigned to the key assumptions represent management's assessment of future trends in the machinery production industry and are based on both external sources and internal sources.

(in thousands of US dollars unless otherwise stated)

33. Business Combinations and Disposals (Continued)

Disposals in 2008

In July 2008 the Group disposed of 100% of Progress LLC to related parties for a total cash consideration of US$ 24 112 (RR 599 million). The net assets of the subsidiary sold were US$ 22 415 as at the date of disposal and the Group recognised a gain from the sale of the subsidiary within other operating income in the amount of US$ 1 697.

In May 2008 the Group disposed of 100% of Territorialnaya Kompaniya of Uralmashzavod LLC to the joint venture for a total consideration of US$ 20 (or RR 500 thousand). The net assets of the subsidiary were US$ 1 493 as at the date of disposal and the Group recognised a loss from the sale of the subsidiary within other operating income in the amount of US$ 1 473.

In September 2008 the Group disposed of 100% of CHETENG CZ, s.r.o and TECHENG CZ s.r.o. to a related party Chemical Engineering Group CJSC for total consideration of US$ 13 879 (RR 345 million). The net assets of the subsidiary were US$ 13 077 as at the date of disposal and the Group recognised gain from the sale of the subsidiary within other operating income in the amount of US$ 802.

In 2008 the Group liquidated subsidiary Avtomatika LLC. The loss on liquidation of the company was US$ 225 and was recognised by the Group within other operating expense.

Aggregate effect of disposals of the subsidiaries to the financial statements

	IFRS carrying amount immediately before disposal
Cash and cash equivalents	1 006
Inventories	207
Trade and other receivables	1 538
Other current assets	94
Property, plant and equipment	32 312
Intangible assets	8 097
Trade and other payables	(5 337)
Borrowings	(3 422)
Deferred tax liabilities	(2 788)
Other liabilities	(230)
Net assets	**31 477**

Effect of disposals on cash flow from investing activities

Cash proceeds	36 480
Cash disposed, including	
- disposal of shares in Techeng CZ and Cheteng Engineering	(431)
- disposal of Territorialnaya Kompaniya of Uralmashzavod LLC	(467)
- disposal of OOO Progress	(106)
- other disposals	(2)
Cash inflows from the sale of subsidiaries	**35 474**

34. Financial Risk and Capital Management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program seeks to minimize potential adverse effects on financial performance.

(in thousands of US dollars unless otherwise stated)

34. Financial Risk and Capital Management (Continued)

Financial risk factors (Continued)

(a) Market risk

(i) Foreign exchange risk

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

The Group manages its foreign exchange risk against its functional currency by reducing the net positions in foreign currencies achieved through purchases of raw materials and services made in the same currency as that in which related contract revenue are expected.

In addition two Group companies (PILSEN STEEL s.r.o. and SKODA JS s.r.o.) incorporate the use of standard derivative hedging instruments in their control of foreign currency risk which include currency forwards and swaps as well as structured currency products. The maturity of these derivative contracts is intended to be consistent with the expected future foreign currency cash flows.

Subsequent to the reporting date, the Russian Ruble and the Czech Koruna have increased/(declined) in value by approximately 4% and (2)% respectively, against the US$. Management of the Group has not completed its analysis of the effect on the Group's operations and financial position; however, the sensitivity analysis provided in Note 33 shows the effects of reasonably possible changes in foreign exchange rates on the Group's financial assets and liabilities as at the reporting date.

				31 December 2009
	Euro weakening by 25%	**Euro strengthening by 25%**	**US$ weakening by 25%**	**US$ strengthening by 25%**
Income statement				
Revaluation of cash	1 710	(1 710)	155	(155)
Revaluation of trade receivables	47 659	(47 659)	2 552	(2 552)
Revaluation of payables	(44 595)	44 595	(2 600)	2 600
Revaluation of loans issued	17 566	(17 566)	-	-
Short-term borrowings	(3 497)	3 497	-	-
Long-term borrowings	(15 954)	15 954	-	-
Derivative financial assets	128	(128)		
	3 017	**(3 017)**	**107**	**(107)**
Other comprehensive income				
Derivative financial assets and liabilities	(3 090)	3 090	-	-

Comparative information for year 2008:

				31 December 2008
	Euro weakening by 25%	**Euro strengthening by 25%**	**US$ weakening by 25%**	**US$ strengthening by 25%**
Income statement				
Revaluation of cash	2 226	(2 226)	563	(563)
Revaluation of trade receivables	26 346	(26 346)	4 493	(4 493)
Revaluation of payables	(18 805)	18 805	(5 916)	5 916
Revaluation of loans issued	17 904	(17 904)	-	-
Short-term borrowings	(6 947)	6 947	(34 272)	34 272
Long-term borrowings	(19 279)	19 279	(9)	9
Derivative financial assets	7 561	(7 561)	-	-
	9 006	**(9 006)**	**(35 141)**	**35 141**
Other comprehensive income				
Derivative financial assets and liabilities	51 612	(51 612)	-	-

(in thousands of US dollars unless otherwise stated)

34. Financial Risk and Capital Management (Continued)

Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk

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

The Group's income and operating cash flows are substantially independent of changes in market interest rates as interest rates for major part of short-term and long-term borrowings received by the Group are fixed.

(iii) Derivatives

Nominal and fair value of derivatives:

	Nominal value 31 December 2009		Nominal value 31 December 2008		Fair value 31 December 2009		Fair value 31 December 2008	
	Derivatives with positive fair value	Derivatives with negative fair value	Derivatives with positive fair value	Derivatives with negative fair value	Positive	Negative	Positive	Negative
Hedging instruments								
Currency derivatives	8 311	95 426	30 918	179 163	285	(1 954)	143	(17 318)
Trading instruments								
Currency derivatives	2 094	-	8 029	22 305	228	-	119	(2 365)
Commodity derivatives	-	-	-	268	-	-	-	(425)

Volume of hedged cash flows:

Volume of hedged cash flows	**Within 1 year**		**1 – 5 years**	
Balance as at 31 December 2009	**Volume of hedged cash flows**	**Fair value of hedging derivatives**	**Volume of hedged cash flows**	**Fair value of hedging derivatives**
Currency risk exposure				
Hedging of receivables	103 737	(1 670)	-	-
Total	**103 737**	**(1 670)**	**-**	**-**

Comparative information for year 2008:

Volume of hedged cash flows	**Within 1 year**		**1 – 5 years**	
Balance as at 31 December 2008	**Volume of hedged cash flows**	**Fair value of hedging derivatives**	**Volume of hedged cash flows**	**Fair value of hedging derivatives**
Currency risk exposure				
Hedging of receivables	202 898	16 376	7 374	19
Commodity risk exposure				
Hedging of liabilities	(268)	(425)	-	-
Total	**202 630**	**15 951**	**7 374**	**19**

(b) Credit risk

Credit risk is a risk of financial loss to the Group if a customer or counterparty to transaction fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The Group's policy is generally to work with the customers on partial prepayment. Significant advances payments are incorporated into contracts with customers. Bank guarantees and letters of credit are used to secure receivables from some customers. The Group's standard contractual terms include penalty interest on late payments to encourage timely settlement.

The Group has a decentralized credit risk management function that is performed on an individual company basis. Monitoring of credit quality of customers is performed by analyzing whether they are in a difficult financial position or subject to bankruptcy. Customers within the equipment for nuclear power plants segment are government agencies or companies controlled by government. As at 31 December 2009 trade receivables and accounts due from customers for contract work related to equipment for nuclear power plants segment amounted to US$ 141 504 (31 December 2008: US$ 18 153). Although collection of receivables can be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 10).

(in thousands of US dollars unless otherwise stated)

34. Financial Risk and Capital Management (Continued)

Financial risk factors (Continued)

Cash and bank deposits are placed in financial institutions, which are considered to have minimal risk of default. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

The table summarizes the maximum exposure to credit risk:

Carrying amount as at 31 December 2009	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
Cash and cash equivalents	16 311	-	-	16 311
Trade receivables	207 415	15 427	15 896	238 738
Accounts due from customers for contract work	141 504	-	-	141 504
Other receivables	12 328	-	13 763	26 091
Short-term loans issued	22 371	-	-	22 371
Promissory notes	-	-	8 119	8 119
Positive fair values of financial derivatives	513	-	-	513
Long-term loans issued	68 307	-	-	68 307
Restricted cash	13 485	-	-	13 485
	482 234	**15 427**	**37 778**	**535 439**

Comparative information for year 2008:

Carrying amount as at 31 December 2008	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
Cash and cash equivalents	36 498	-	-	36 498
Trade receivables	83 782	22 305	20 128	126 215
Accounts due from customers for contract work	87 043	-	-	87 043
Other receivables	12 282	-	18 721	31 003
Short-term loans issued	25 202	-	-	25 202
Promissory notes	-	-	4 644	4 644
Positive fair values of financial derivatives	117	-	-	117
Long-term loans issued	69 976	-	-	69 976
Restricted cash	20 072	-	-	20 072
	334 972	**22 305**	**43 493**	**400 770**

In addition to the credit exposure disclosed above for recognised assets, the Group also has a gross credit exposure for guarantees on loans to third and related parties in the total amount of US$ 27 490 (31 December 2008: US$ 49 562).

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach the managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable loss or risking damage to the Group's reputation.

Prudent liquidity risk management includes maintaining sufficient cash and availability of funding from an adequate amount of committed credit facilities. Group maintains flexibility in funding by maintaining availability under committed credit lines. As at 31 December 2009 the Group has unused credit facilities in the amount of US$ 261 650 (31 December 2008: US$ 127 180).

The table below analyses the Group's financial liabilities which will be settled on a gross basis into relevant maturity based on the remaining period at the balance sheet to the together with the borrowings).

The maturity analysis of financial liabilities other than derivatives as at 31 December 2009 is as follows:

	Less than 1 year	1-2 years	2-5 years	More than five year	Total
Trade and other payables	284 189	299	4 433	-	288 921
Short-term borrowings	120 945	-	-	-	120 945
Long-term borrowings	-	120 363	54 546	90 019	264 928
Bonds	-	102 392	-	-	102 392
Bond coupon	13 288	13 288	-	-	26 576
Guarantees	2 956	-	24 534	-	27 490
Other interest payments	51 308	31 064	56 525	11 859	150 756
	472 686	**267 406**	**140 038**	**101 878**	**982 008**

(in thousands of US dollars unless otherwise stated)

34. Financial Risk and Capital Management (Continued)

Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The maturity analysis of financial liabilities other than derivatives as at 31 December 2008 is as follows:

	Less than 1 year	1-2 years	2-5 years	Total
Trade and other payables	190 663	3 562	5 531	199 756
Short-term borrowings	222 044	-	-	222 044
Long-term borrowings	-	143 633	8 965	152 598
Bonds	135 576	-	-	135 576
Bond coupon	9 760	-	-	9 760
Guarantees	24 307	-	25 255	49 562
Other interest payments	27 638	12 894	44 894	85 426
	609 988	**160 089**	**84 645**	**854 722**

Contractual maturity obligation for derivatives as at 31 December 2009:

	Total	Less than 3 months	3 - 12 months	1 - 5 years
Derivatives with positive fair value				
Currency derivatives				
Inflow of financial resources	12 018	5 204	6 814	-
Outflow of financial resources	(11 528)	(4 862)	(6 666)	-
Derivatives with negative value				
Currency derivatives				
Inflow of financial resources	93 679	11 271	82 408	-
Outflow of financial resources	(95 426)	(11 714)	(83 712)	-

Contractual maturity obligation for derivatives as at 31 December 2008:

	Total	Less than 3 months	3 - 12 months	1 - 5 years
Derivatives with positive fair value				
Currency derivatives				
Inflow of financial resources	15 500	5 058	8 657	1 785
Outflow of financial resources	(15 233)	(5 012)	(8 486)	(1 735)
Derivatives with negative value				
Currency derivatives				
Inflow of financial resources	205 682	50 647	148 758	6 277
Outflow of financial resources	(225 373)	(55 678)	(163 395)	(6 300)
Commodity derivatives				
Outflow of financial resources	(425)	(425)	-	-

The contractual maturities of guarantee obligations of US$ 27 490 (2008: US$ 49 562) are between 2010-2014 (31 December 2008: 2012-2014).

(d) Capital risk management

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. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-redeemable preference shares and minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

From time to time the Company purchases its own shares on the market; the timing of these purchases depends on market prices. Buy and sell decisions are made on a specific transaction basis by management; the Group does not have a defined share buy-back plan.

There were no changes in the Group's approach to capital management during the year.

The Company is subject to external capital requirements that require that its net assets as determined in accordance with Russian Accounting Principles must exceed its charter capital at all times.

(in thousands of US dollars unless otherwise stated)

35. Fair Value of Financial Instruments

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

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

Financial instruments carried at fair value. Trading and available-for-sale investments and financial derivatives, including those classified as non-current assets held for sale (or disposal groups) are carried on the consolidated statement of financial position at their fair value. Cash and cash equivalents are carried at amortized cost, which approximates current fair value.

Fair values were determined based on quoted market prices except for certain investment securities available-for-sale for which there were no available external independent market price quotations (see Note 15).

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

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

Derivative financial instruments. The fair value of derivatives is based on inputs that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

36. Reconciliation of Classes of Financial Instruments with Measurement Categories

The following tables provide a reconciliation of classes of financial assets with the measurement categories as at 31 December 2009:

	Loans and receivables	Available for sale financial assets	Assets designated at FVTPL *	Financial derivatives - hedging	Total
ASSETS					
Cash and cash equivalents (Note 9)					
Cash on hand and balances with the bank	16 195	-	-	-	16 195
Cash equivalents	116	-	-	-	116
Trade and other receivables (Note 10)					
Trade receivables	207 415	-	-	-	207 415
Accounts due from customers for contract work	141 504	-	-	-	141 504
Forward foreign exchange contracts – cash flow hedges	-	-	228	285	513
Other receivables	12 328				12 328
Other current financial assets (Note 12)					
Short-term loans issued	22 371	-	-	-	22 371
Restricted cash	13 485	-	-	-	13 485
Other non-current financial assets (Note 15)					
Long-term loans issued	68 307	-	-	-	68 307
Available-for-sale investments	-	36 296	-	-	36 296
Total financial assets	**481 721**	**36 296**	**228**	**285**	**518 530**
Non-financial assets	**-**	**-**	**-**	**-**	**836 971**
Total assets	**481 721**	**36 296**	**228**	**285**	**1 355 501**

* FVTPL = fair value through profit and loss

(in thousands of US dollars unless otherwise stated)

36. Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

All the Group's financial liabilities are carried at amortised cost except for currency derivatives used as hedging instruments which are carried at fair value of US$ 1 954 and included in trade and other accounts payable.

Comparative information for 2008:

	Loans and receivables	Available for sale financial assets	Assets designated at FVTPL *	Financial derivatives - hedging	Total
ASSETS					
Cash and cash equivalents (Note 9)					
Cash on hand and balances with the bank	30 232	-	-	-	30 232
Cash equivalents	6 266	-	-	-	6 266
Trade and other receivables (Note 10)					
Trade receivables	106 087	-	-	-	106 087
Accounts due from customers for contract work	87 043	-	-	-	87 043
Forward foreign exchange contracts – cash flow hedges	-	-	117	-	117
Other receivables	12 282	-	-	-	12 282
Other current financial assets (Note 12)					
Short-term loans issued	25 202	-	-	-	25 202
Restricted cash	20 072	-	-	-	20 072
Derivatives	-	-	119	-	119
Other non-current financial assets (Note 15)					
Long-term loans issued	69 976	-	-	-	69 976
Available-for-sale investments	-	125 088	-	-	125 088
Forward foreign exchange contracts – cash flow hedges	-	-	-	26	26
Total financial assets	**357 160**	**125 088**	**236**	**26**	**482 510**
Non-financial assets	-	-	-	-	**792 472**
Total assets	**357 160**	**125 088**	**236**	**26**	**1 274 982**

* FVTPL = fair value through profit and loss

All the Group's financial liabilities are carried at amortised cost except for currency derivatives used as hedging instruments which are carried at fair value of US$ 17 318 and currency and commodity hedging instruments that are measured at fair value through profit and loss of US$ 2 790, both of which are included in trade and other accounts payable.