HMS Group OJSC
(previously operating as Investment and Industrial Group Hydraulic Machines and Systems LLC)

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

31 December 2008

Contents

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001
www.pwc.ru

INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
10 June 2009

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2008	31 December 2007
ASSETS			
Non-current assets:			
Property, plant and equipment	6	3,928,373	2,867,035
Other intangible assets	7	53,439	46,589
Goodwill	8	306,682	207,329
Investments in associates	10	449,848	416,860
Deferred income tax assets	24	41,000	57,711
Other long-term receivables	14	17,285	50,911
Total non-current assets		**4,796,627**	**3,646,435**
Current assets:			
Inventories	12	2,432,504	1,852,958
Trade and other receivables	13	3,076,888	3,869,094
Current income tax receivable		46,516	29,212
Prepaid expenses		26,422	23,024
Cash and cash equivalents	11	669,482	377,203
Restricted cash	11	620	890
Total current assets		**6,252,432**	**6,152,381**
TOTAL ASSETS		**11,049,059**	**9,798,816**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	22	591,180	-
Currency translation reserve		(122,942)	-
Retained earnings		1,657,812	-
Other reserves		(26,834)	-
Equity attributable to the Company's equity holders		**2,099,216**	**-**
Minority interest		663,197	567,953
TOTAL EQUITY		**2,762,413**	**567,953**
LIABILITIES			
Net assets attributable to the Company's participants:			
Paid-in capital	23	-	218,080
Cumulative surplus of net assets		-	1,538,482
Total net assets attributable to the Company's participants		**-**	**1,756,562**
Non-current liabilities:			
Long-term borrowings	15	787	52,631
Finance lease liability	16	21,767	41,388
Deferred income tax liability	24	240,670	237,553
Pension liability	17	120,898	118,276
Other provisions for liabilities and charges	19	27,111	29,594
Total non-current liabilities, excluding net assets attributable to participants		**411,233**	**479,442**
Total non-current liabilities		**411,233**	**2,236,004**
Current liabilities:			
Trade and other payable	21	3,413,961	3,856,253
Short-term borrowings	15	4,081,922	2,898,852
Finance lease liability	16	19,776	22,816
Pension liability	17	17,242	11,676
Current income tax payable		22,418	23,593
Other taxes payable	20	320,094	181,669
Total current liabilities		**7,875,413**	**6,994,859**
TOTAL LIABILITIES		**8,286,646**	**9,230,863**
TOTAL EQUITY AND LIABILITIES		**11,049,059**	**9,798,816**

Approved for issue and signed on behalf of the Board of Directors on 10 June 2009.

K.V. Molchanov
Vice-president
HMS Group OJSC

M.Y. Kuzmenko
Finance Director
HMS Group OJSC

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2008	2007
Revenue	25	14,092,361	13,399,356
Cost of sales	26	(10,772,689)	(10,807,001)
Gross profit		**3,319,672**	**2,592,355**
Distribution and transportation expenses	27	(517,493)	(399,625)
Excess of fair value of net assets acquired over the cost of acquisition	9	33,958	-
General and administrative expenses	28	(1,653,383)	(1,228,171)
Other operating expenses - net	29	(189,476)	(100,772)
Operating profit		**993,278**	**863,787**
Finance income	30	26,450	35,053
Finance costs	31	(488,369)	(249,097)
Share of results of associates	10	49,444	18,129
Profit before income tax		**580,803**	**667,872**
Income tax expense	24	(213,638)	(176,690)
Profit after tax		**367,165**	**491,182**
Other changes in net assets attributable to participants		166,969	(2,130)
Increase in net assets		**534,134**	**489,052**
Remeasurement of net assets attributable to participants		(448,896)	(489,052)
Net profit		**85,237**	-
Profit/(loss)/increase in net assets attributable to:			
Equity holders/participants of the Company		(2,931)	370,300
Minority interest		88,168	118,752
Profit/increase in net assets		**85,237**	**489,052**

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

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2008	2007
Cash flows from operating activities			
Profit before income tax		580,803	667,872
Adjustments for:			
Deprecation and amortization	6,7	347,828	277,172
Loss from disposal of property, plant and equipment and intangible assets		30,383	27,273
Finance income	30	(26,450)	(35,053)
Finance costs	31	413,990	224,667
Pension expenses	17	24,801	45,130
Provision for warranty	26	12,422	11,709
Provision for impairment of accounts receivable	28	32,694	69,373
Provision for obsolete inventories	26	56,993	48,383
Foreign exchange translation differences		74,348	(4,422)
Provisions for legal claims	28	19,137	-
Share of result of associates	10	(49,444)	(18,129)
Excess of fair value of net assets acquired over the cost of acquisition	9	(33,958)	-
Operating cash flows before working capital changes		**1,483,547**	**1,313,975**
Increase in inventories		(542,698)	(139,810)
Decrease/(increase) in trade and other receivables		1,144,115	(1,363,244)
Increase/(decrease) in taxes payable		133,961	(86,481)
(Decrease)/increase in accounts payable and accrued liabilities		(764,392)	1,266,435
Restricted cash	11	270	(690)
Cash generated from operations		**1,454,803**	**990,185**
Income tax paid		(367,006)	(328,099)
Interest paid		(421,100)	(223,974)
Net cash from operating activities		**666,697**	**438,112**
Cash flows from investing activities			
Repayment of loans advanced		376,802	90,676
Loans advanced		(407,311)	(110,834)
Proceeds from the sale of property, plant and equipment		23,876	6,763
Interest received		8,150	403
Dividend received	10	8,359	-
Acquisition of intangible assets		(10,454)	(5,304)
Prepayments for business combinations		(162,814)	(199,399)
Purchase of property, plant and equipment		(650,252)	(501,858)
Acquisition of associates	10	(50,605)	(398,731)
Acquisitions of subsidiaries, net of cash acquired	9	(261,144)	(398,242)
Net cash used in investing activities		**(1,125,393)**	**(1,516,526)**
Cash flows from financing activities			
Repayment of borrowings		(6,852,625)	(3,777,447)
Proceeds from borrowings		7,852,955	5,413,921
Payment for finance lease		(22,664)	(12,157)
Acquisition of non-controlling interest in subsidiaries	9	(5,890)	(89,167)
Proceeds from sale of non-controlling interest in subsidiaries	9	766	-
Prepayments for acquisition of non-controlling interest in subsidiaries		(9,753)	-
Dividend paid to minority holders of subsidiaries		(235,362)	(221,915)
Capital contribution		23,548	-
Net cash from financing activities		**750,975**	**1,313,235**
Net increase in cash and cash equivalents		**292,279**	**234,821**
Cash and cash equivalents at the beginning of the year, net of restricted cash of RR 890	11	**377,203**	**142,382**
Cash and cash equivalents at the end of the year, net of restricted cash of RR 620	11	**669,482**	**377,203**

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Capital and reserves attributable to the equity holders of the Company: Share capital	Other reserves	Cumulative currency translation reserve	Retained Earnings	Minority interest	Total Equity
Balance at 1 January 2007		-	-	-	-	**687,257**	**687,257**
Profit for the year attributable to minority interest		-	-	-	-	118,752	118,752
Business combinations	9	-	-	-	-	85,130	85,130
Acquisition of minority interest in the subsidiaries	9					(276,585)	(276,585)
Distribution to minority holders of the Group's subsidiaries		-	-	-	-	(221,690)	(221,690)
Re-distribution of net assets to minority holders of the Group's subsidiaries	22	-	-	-	-	175,089	175,089
Balance at 31 December 2007		-	-	-	-	**567,953**	**567,953**
Balance as at 1 January 2008		-	-	-	-	**567,953**	**567,953**
Reclassification from net assets attributable to participants liability	1, 23	591,180	(63,869)	(30,362)	1,708,509	-	**2,205,458**
Change in cumulative currency translation reserve		-	-	(92,580)	-	(13,574)	**(106,154)**
Revaluation gain	22	-	37,035	-	-	-	**37,035**
Net loss recognised directly in equity		-	37,035	(92,580)	-	(13,574)	**(69,119)**
Net profit for the period		-	-	-	(2,931)	88,168	**85,237**
Total recognised income		-	37,035	(92,580)	(2,931)	74,594	**16,118**
Distribution to minority holders of the Group's subsidiaries	22	-	-	-	-	(291,726)	**(291,726)**
Re-distribution of net assets to minority holders of the Group's subsidiaries	22	-	-	-	(33,726)	235,363	**201,637**
Business combinations	9	-	-	-	-	117,886	**117,886**
Acquisition of minority interest in the subsidiaries	9	-	-	-	(14,040)	(40,873)	**(54,913)**
Balance as at 31 December 2008		**591,180**	**(26,834)**	**(122,942)**	**1,657,812**	**663,197**	**2,762,413**

(in thousands of Russian Roubles, unless otherwise stated)

1 The HMS Group and its Operations

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

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

Information about the Group's subsidiaries (core activities, voting power of the Group and effective ownership of the Group) as of 31 December 2008 is provided below:

			2008		2007	
Company	**Nature of operations**	**Country**	**Group's voting power, %**	**Group's effective ownership, %**	**Group's voting power, %**	**Group's effective ownership, %**
HYDROMASHSERVICE CJSC	Wholesale of oilfield and pumping equipment, commission trade	Russia	100%	100%	100%	100%
HYDROMASHINPROM CJSC	Wholesale of oilfield and pumping equipment	Russia	95%	71%	95%	71%
Hydraulic Machines and Systems Management LLC	Management services to Group companies	Russia	100%	98%	100%	84%
United Industrial Group LLC	Idle	Russia	100%	100%	100%	100%
Electrodvigatel OJSC	Production and sales of pumping equipment, engines and spare parts	Russia	75%	57%	75%	57%
Livhydromash OJSC	Production and sales of pumping equipment and spare parts	Russia	98%	96%	98%	96%
Neftemash OJSC	Production and sales of oilfield equipment	Russia	100%	80%	86%	80%
Livnynasos OJSC	Production and sales of pumping equipment and spare parts	Russia	87%	70%	81%	70%
LPKS LLC	Production and sales of pumping equipment and spare parts	Russia	100%	87%	100%	89%
Nasosenergomash OJSC	Production and sales of pumping equipment and spare parts	Ukraine	83%	83%	83%	83%
SPA Gidromash CJSC	Production and sales of pumping equipment and spare parts	Ukraine	100%	100%	-	-
Trade house HYDROMASHSERVICE Ukraine LLC (formerly TH Sumskie Nasosy LLC)	Wholesale and retail trade on commission	Ukraine	100%	100%	83%	83%
Nizhnevartovskremservice CJSC	Oilfield equipment repairs	Russia	100%	100%	100%	100%
Tomskgazstroy OJSC	Construction and assembly	Russia	53%	62%	51%	51%
Otdelochnik Tomskgazstroy LLC	Construction and assembly	Russia	-	-	51%	51%
Sibservis LLC	Information and consulting services	Russia	71%	71%	100%	100%
Trest Sibkomplektmontaghnaladka OJSC	Construction and assembly	Russia	99%	99%	97%	97%
HMS-engineering LLC	Idle	Russia	-	-	100%	100%
Promburvod Plant OJSC	Production and sales of pumping equipment and spare parts	Belorussia	51%	51%	-	-
HMS-Promburvod CJSC	Wholesale and retail trade on commission	Belorussia	51%	51%	-	-
Institute Rostovskiy Vodokanalproekt OJSC	Design of water-supply systems, sewage systems and related equipment	Russia	86%	72%	-	-
Hydromashkomplekt LLC	Real estate	Russia	100%	100%	-	-
Business Center HYDROMASH LLC	Real estate	Russia	100%	100%	-	-
Hydromash-Industria LLC	Design of pumping equipment and spare parts	Russia	100%	100%	-	-

2 Basis of Preparation and Summary of Significant Accounting Policies

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

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

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

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

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.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. 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 of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company.

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

Investments in associates. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables that in substance form part of the investor's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

2 Basis of Preparation and Summary of Significant Accounting Policies (continued)

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Number of years
Buildings	3 to 100
Plant and equipment	10 to 15
Transport	7
Other	3 to 5

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

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

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include customer relationships acquired in business combinations, capitalised computer software, patents and licences.

Customer relationships acquired in a business combination that arise from contractual rights and meet other criteria for identification as intangible assets are initially recorded at fair value. Customer relationships are amortised over a period of two years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five 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.

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

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

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

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

2 Basis of Preparation and Summary of Significant Accounting Policies (continued)

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

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

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

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

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost using the effective interest method. The Group does not capitalise borrowing costs.

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

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the 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 provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 Basis of Preparation and 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 balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

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

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

Uncertain tax positions. Russian tax legislation is subject to varying interpretations. Interpretations may have an impact on recognised current and deferred income taxes, VAT or other tax liabilities. An interpretation of tax laws resulting in a specific treatment in the tax return is often referred to as a 'tax position'. A tax position may be clearly erroneous or maybe just uncertain. Uncertainties may arise from ambiguities in the text of the tax laws, administrative practices, or from a need to make estimates, for example in determining whether transfer prices are at a market level. Uncertain tax positions may or may not be sustainable if challenged by competent tax authorities in full knowledge of all relevant facts and circumstances. The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currencies of the Group's subsidiaries and associates are Russian Roubles, Ukrainian Hryvnas ("UAH"), Belorussian Roubles ("BYR") and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation (hereinafter "CBRF") at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss.

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

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

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

(iii) all resulting exchange differences are recognised as a separate component of net assets attributable to participants.

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

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

At 31 December 2008 the principal rates of exchange used for translating foreign currency balances were UAH 1 = RR 3.8557 (2007: UAH 1 = RR 4.8236), BYR 1 = RR 0.0133 (2007: BYR 1 = RR 0.0114).

2 Basis of Preparation and Summary of Significant Accounting Policies (continued)

Financial guarantees. Financial guarantees are contracts that require 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.

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

Net assets attributable to participants. Until 29 August 2008, the Company's equity participants had a right to request redemption of their interests in the Company in cash (Note 22). The Company's obligation to redeem gave rise to a financial liability for the present value of the redemption amount even though the obligation was conditional on the equity participant exercising the right. The redemption amount was variable and depended on the Company's net assets determined in accordance with the Russian Accounting Regulations. As a practical expedient the Company measured the liability presented as 'Net assets attributable to participants' at the carrying values of net assets that were or could have been distributable to participants, determined in accordance with the Russian Accounting Regulations for the Company or determined in accordance with IFRS for the Group, whichever were higher. The liability was classified as non-current because the Company, in accordance with its charter, had an unconditional right to defer redemption for at least twelve months after the balance sheet date.

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

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

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, risks and rewards of ownership of the goods have been transferred and it is probable that future economic benefits will flow to the entity.

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

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

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

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

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

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

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

2 Basis of Preparation and Summary of Significant Accounting Policies (continued)

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

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

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

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

Actuarial gains and losses are recognised immediately in the income statement as they arise.

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

Reclassifications. Certain reclassifications have been made to prior year balances in the consolidated balance sheet, statement of income, cash flow statements and notes to conform to the current period presentation.

3 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

(a) Remaining useful life of property, plant and equipment

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

(b) Related party transactions

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

(c) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 33.

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

(d) Provision for pension obligations

The principal assumptions used in valuation of pension obligations are the discount rates used in determining the present value of post employment benefits, expected rate of return on plan assets, salaries at retirement for post-employment defined benefit plan (Note 17). The Group's estimates for pension obligations provisions are based on currently available information. Actual results may differ from the estimates, and the Group's estimates can be revised in the future, either negatively or positively. Provisions for pension obligations are periodically adjusted based on updated actuarial assumptions.

(e) Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 8. At 31 December 2008 no impairment of goodwill was required. If the budgeted cash flow projections for any of CGUs had been 5% lower than management estimates and the estimated pre-tax discount rate applied to the discounted cash flows for any CGU had been 1% higher than management estimates (for example, 18% instead of 17% applied in calculations), the Group would have recognised an impairment of goodwill of RR 24,696.

(f) Estimated impairment of property, plant and equipment

At 31 December 2008 the Group performed an impairment test of property, plant and equipment. The recoverable amount of each cash-generating unit (CGU) was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a 5 year. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs.

(g) Assessment of percentage of completion on construction contracts

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

4 Adoption of New or Revised Standards and Interpretations

Certain new interpretations became effective for the Group from 1 January 2008:

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008); and
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

The new IFRIC interpretations did not significantly affect the Group's financial statements.

Reclassification of Financial Assets – Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures* and a subsequent amendment, *Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group did not make any of the optional reclassifications during the period.

Standards and amendments early adopted by the Group. IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009) was early adopted in 2007. IFRS 8 replaces IAS 14, Segment reporting, and aligns segment reporting with the requirements of the US standard SFAS 131, Disclosure about segments of and enterprise and related information. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

5 New Accounting Pronouncements

Certain new standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the entity has not early adopted:

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in net assets attributable to participants, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

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

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment is not currently applicable to the Group as it has no such payments.

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

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

5 New Accounting Pronouncements (continued)

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognize revenue on such transactions. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these consolidated financial statements as the Group does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (issued May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognized in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's consolidated financial statements.

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

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

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

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

5 New Accounting Pronouncements (continued)

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

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: *Disclosures* (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognized asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

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

(in thousands of Russian Roubles, unless otherwise stated)

6 Property, Plant and Equipment

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

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost at 1 January 2007	81,610	1,095,005	704,401	96,041	125,884	87,466	2,190,407
Accumulated depreciation	-	(54,069)	(143,754)	(25,197)	(38,555)	-	(261,575)
Carrying amount at 1 January 2007	**81,610**	**1,040,936**	**560,647**	**70,844**	**87,329**	**87,466**	**1,928,832**
Acquisitions through business combinations (Note 9)	36,850	425,608	205,465	18,852	8,277	32,381	727,433
Additions	-	3,742	47,403	5,265	2,559	431,017	489,986
Transfers	-	71,023	238,737	26,350	27,424	(363,534)	-
Disposals		(1,291)	(15,140)	(1,987)	(4,580)	(12,162)	(35,160)
Depreciation for the period	-	(42,136)	(157,794)	(23,504)	(20,622)	-	(244,056)
Carrying amount at 31 December 2007	**118,460**	**1,497,882**	**879,318**	**95,820**	**100,387**	**175,168**	**2,867,035**
Cost at 31 December 2007	**118,460**	**1,593,816**	**1,170,499**	**142,415**	**153,101**	**175,168**	**3,353,459**
Accumulated depreciation	**-**	**(95,934)**	**(291,181)**	**(46,595)**	**(52,714)**	**-**	**(486,424)**
Carrying amount at 1 January 2008	**118,460**	**1,497,882**	**879,318**	**95,820**	**100,387**	**175,168**	**2,867,035**
Acquisitions through business combinations (Note 9) and contribution to charter capital (Note 23)	-	620,295	166,952	4,110	9,139	35,313	835,809
Additions	857	62,357	392,837	23,734	36,450	140,002	656,237
Transfers	-	6,693	19,277	2,838	856	(29,664)	-
Disposals		(2,869)	(4,290)	(2,336)	(2,144)	(58,680)	(70,319)
Depreciation for the period	-	(62,465)	(188,756)	(29,625)	(27,656)	-	(308,502)
Translation to presentation currency	5,841	(11,478)	(19,361)	(1,769)	(23,828)	(1,292)	(51,887)
Carrying amount at 31 December 2008	**125,158**	**2,110,415**	**1,245,977**	**92,772**	**93,204**	**260,847**	**3,928,373**
Cost at 31 December 2008	**125,158**	**2,263,606**	**1,708,551**	**162,978**	**167,508**	**260,847**	**4,688,648**
Accumulated depreciation	**-**	**(153,191)**	**(462,574)**	**(70,206)**	**(74,304)**	**-**	**(760,275)**
Carrying amount at 31 December 2008	**125,158**	**2,110,415**	**1,245,977**	**92,772**	**93,204**	**260,847**	**3,928,373**

As of 31 December 2008, the Group's property, plant and equipment for a total of RR 138,006 had been pledged as security for loans (2007: RR 192,522) (Note 15).

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

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

6 Property, Plant and Equipment (continued)

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

	2008
Growth rate beyond five years	0.1%
Pre-tax discount rate	17%

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

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

7 Other Intangible Assets

	Patents	Licensed technology	Acquired software license	Customer relationships	Trademarks	Websites	Total
Carrying amount at 1 January 2007	**11,795**	**3,013**	**3,493**	**52,980**	**-**	**26**	**71,307**
Cost at 1 January 2007	**18,554**	**5,697**	**4,250**	**52,980**	**-**	**26**	**81,507**
Accumulated amortization and impairment	**(6,759)**	**(2,684)**	**(757)**	**-**	**-**	**-**	**(10,200)**
Acquisitions through business combinations (Note 9)	-	1,120	2,112	-	-	-	3,232
Additions	1,287	4,088	9,413	-	-	-	14,788
Disposals	(6,790)	(1,269)	(1,563)	-	-	-	(9,622)
Amortization for the year	(2,485)	(754)	(3,382)	(26,490)	-	(5)	(33,116)
Carrying amount at 31 December 2007	**3,807**	**6,198**	**10,073**	**26,490**	**-**	**21**	**46,589**
Cost at 1 January 2008	**7,405**	**9,282**	**13,587**	**52,980**	**-**	**26**	**83,280**
Accumulated amortization and impairment	**(3,598)**	**(3,084)**	**(3,514)**	**(26,490)**	**-**	**(5)**	**(36,691)**
Acquisitions through business combinations (Note 9) and capital contribution (Note 23)	11,269	23	3,853	7,518	14,104	43	36,810
Additions	390	5,760	6,926	-	-	-	13,076
Disposals	(1,346)	-	(3,346)	-	-	-	(4,692)
Amortization for the year	(2,296)	(3,494)	(3,739)	(29,251)	(535)	(11)	(39,326)
Translation to presentation currency	202	-	1	252	525	2	982
Carrying amount at 31 December 2008	**12,026**	**8, 487**	**13,768**	**5,009**	**14,094**	**55**	**53,439**
Cost at 31 December 2008	**12,576**	**13,097**	**18,429**	**7,595**	**14,528**	**70**	**66,295**
Accumulated amortization and impairment	**(550)**	**(4,610)**	**(4,661)**	**(2,586)**	**(434)**	**(15)**	**(12,856)**
Carrying amount at 31 December 2008	**12,026**	**8, 487**	**13,768**	**5,009**	**14,094**	**55**	**53,439**

(in thousands of Russian Roubles, unless otherwise stated)

8 Goodwill

Movements in goodwill on acquisition of the subsidiaries:

	Note	2008	2007
Gross book value as of 1 January		207,329	16,757
Accumulated impairment as of 1 January		-	-
Carrying amount as of 1 January		**207,329**	**16,757**
Acquisitions of subsidiaries	9	99,353	190,572
Carrying amount as of 31 December		**306,682**	**207,329**
Gross book value as of 31 December		**306,682**	**207,329**
Accumulated impairment losses as of 31 December		-	-
Carrying amount as of 31 December		**306,682**	**207,329**

Goodwill impairment test

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

	2008	2007
Hydromash-Industria LLC	4,519	-
Tomskgazstroy OJSC	16,757	16,757
Rostovskiy Vodokanalproekt OJSC	94,834	-
Trest Sibkomplektmontazhnaladka OJSC	190,572	190,572
Total carrying amount of goodwill	**306,682**	**207,329**

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

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

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

	2008	2007
Growth rate beyond five years	0.1%	0.1%
Pre-tax discount rate	17%	13%

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

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

9 Business Combinations

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

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

(in thousands of Russian Roubles, unless otherwise stated)

9 Business Combinations (continued)

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

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

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

	Hydromash-Industria LLC	Rostovskiy Vodokanalproekt OJSC	SPA Gidromash CJSC	Promburvod Plant OJSC
	Attributed fair value	Attributed fair value	Attributed fair value	Attributed fair value
Property, plant and equipment	100	109,990	124,509	161,415
Intangible assets	4,893	3,794	22,063	6,050
Investment in associate	-	11,270	-	-
Other long-term receivables	-	-	-	348
Inventories	3,125	23,196	58,126	80,608
Trade and other receivables	2,934	34,097	49,884	13,371
Cash and cash equivalents	634	32,449	7	13,969
Long-term borrowings	-	-	-	(788)
Deferred tax liability	(1,483)	(17,451)	(21,926)	(21,639)
Pension liability	-	-	-	(3,588)
Other provisions for liabilities and charges	-	-	-	(156)
Trade and other payable	(3,729)	(85,084)	(70,193)	(46,395)
Short-term borrowings	(500)	(11)	(6,685)	(11,305)
Pension liability	-	-	(428)	(700)
Current income tax payable	-	(4,254)	(4,711)	(687)
Other taxes payable	(168)	(13,292)	(2,400)	(3,932)
Fair value of net assets	**5,806**	**94,704**	**148,246**	**186,571**
Less: Minority interest	-	(26,489)	(692)	(90,705)
Less: Fair value of previously held interest in associate	-	-	-	(74,633)
Fair value of acquired interest in net assets	**5,806**	**68,215**	**147,554**	**21,233**
Goodwill	4,519	94,834	-	-
Excess of the Group's share of the fair value of acquired net assets over the purchase price	-	-	(17,800)	(16,158)
Total purchase consideration	**10,325**	**163,049**	**129,754**	**5,075**
Less: cash and cash equivalents of subsidiaries acquired	(634)	(32,449)	(7)	(13,969)
Outflow of cash and cash equivalents on acquisition	**9,691**	**130,600**	**129,747**	**(8,894)**

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

9 Business Combinations (continued)

Acquisition and disposal of minority interest in subsidiaries

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

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

In June 2008, Tomskgazstroy OJSC increased its share capital by RR 20,000 through issuing of 100 thousand of preference shares with the nominal value of RR 200 each. Preference shares were sold to related parties (ultimate beneficiaries of the Group). In August 2008, the Group acquired an additional 2.1% interest in Tomskgazstroy OJSC for RR 4,471, respectively, paid in cash. As a result, the effective interest in the subsidiary owned by the Group increased from 50.7% to 62% and minority interest decreased by RR 37,681.

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

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

Prior year acquisitions

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

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

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

	Attributed fair value
Cash and cash equivalents	30,117
Property, plant and equipment	727,433
Intangible assets	3,232
Promissory notes receivables	52,307
Other accounts receivable	4,637
Other non-current assets	155
Accounts receivable	97,167
Inventories	578,193
Taxes and levies receivable	3,998
Other receivables	231,830
Borrowings	(42,500)
Trade and other payables	(1,252,483)
Finance lease liability	(43,267)
Deferred tax liability	(67,902)
Fair value of net assets	**322,917**
Less: Minority interest	(85,130)
Fair value of acquired interest in net assets	**237,787**
Goodwill	190,572
Total purchase consideration	**428,359**
Less: cash and cash equivalents of subsidiaries acquired	(30,117)
Outflow of cash and cash equivalents on acquisition	**398,242**

(in thousands of Russian Roubles, unless otherwise stated)

9 Business Combinations (continued)

Prior year acquisitions (continued)

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

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

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

Acquisition of minority interest in subsidiaries in 2007

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

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

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

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

10 Investments in Associates

In April 2008 the Group acquired 29.91% interest in Sibnefteavtomatika OJSC for RR 50,605 paid in cash. The Group's share within associated net assets as at acquisition date was RR 59,760. The excess of fair value of the net assets acquired over the cost of acquisition of RR 9,155 was recorded in the income statement and included in the share of results of associates.

In December 2008 the Group acquired 35.29% of interest in Vodokanalproektirovanie LLC through the acquisition of controlling interest in Institute Rostovskiy Vodokanalproekt OJSC. Management has commenced assessment of the fair values of the assets and liabilities acquired. The assessment was not completed at the time of finalising these financial statements.

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

The Group's investments in associates are as follows:

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

(in thousands of Russian Roubles, unless otherwise stated)

10 Investments in associates (continued)

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

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

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

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

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

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

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

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

	2008
Growth rate beyond five years	0.1%
Pre-tax discount rate	17%

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

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

11 Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

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

As at 31 December 2008 the closing balance of short-term bank deposits comprised short-term bank deposit in one bank with a 7-9% interest rate.

As at 31 December 2007 the closing balance of short-term bank deposits comprised short-term bank deposit in one bank with a 0.1% interest rate.

Restricted cash

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

(in thousands of Russian Roubles, unless otherwise stated)

12 Inventories

	31 December 2008	31 December 2007
Materials and components	978,006	601,388
Inventory for implementation of construction contracts	334,652	394,404
Work in progress	413,293	403,061
Finished goods	517,689	280,095
Goods for resale	246,180	225,464
Other inventories	59,206	16,772
Provision for obsolete inventories	(116,522)	(68,226)
	2,432,504	**1,852,958**

At 31 December 2008 inventories of RR 77,991 were pledged as collateral for borrowings (2007: RR 204,823) (Note 15).

13 Trade and Other Receivables

	31 December 2008	31 December 2007
Trade receivables	1,541,870	2,354,203
Less: provision for impairment of trade receivables	(126,729)	(51,387)
Promissory notes receivable	17,760	17,395
Short-term loans issued	126,433	82,620
Other receivables	81,915	55,753
Less: provision for impairment	(7,822)	(12,242)
Financial trade and other receivables – net	**1,633,427**	**2,446,342**
Receivable due from customers for construction work in progress (Note 18)	257,737	60,227
Advances to suppliers	830,350	1,011,597
VAT receivable	419,784	412,093
Other taxes receivable	9,569	4,350
Less: provision for impairment	(73,979)	(65,515)
Non-financial receivables – net	**1,443,461**	**1,422,752**
Total trade and other receivables	**3,076,888**	**3,869,094**

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

Advances to suppliers include advances made for the acquisition of businesses of RR 254,980 (2007: RR 199,399).

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

	2008		**2007**	
	Trade receivables	**Other receivables**	**Trade receivables**	**Other receivables**
Provision for impairment at 1 January	**51,387**	**77,757**	**23,036**	**36,735**
Provision for receivables impairment	75,342	4,044	28,351	41,022
Receivables written off during the year as uncollectible	-	-	-	-
Unused amounts reversed	-	-	-	-
Provision for impairment at 31 December	**126,729**	**81,801**	**51,387**	**77,757**

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	31 December 2008	31 December 2007
RR	2,849,902	2,722,905
US dollars	41,523	89,114
EURO	26,953	991,946
UAH	152,478	65,129
BYR	6,032	-
	3,076,888	**3,869,094**

(in thousands of Russian Roubles, unless otherwise stated)

14 Other Long-term Receivables

	31 December 2008	31 December 2007
Long-term loans issued	112	34,211
Loan impairment provision	-	(5,112)
Long term trade receivables	-	12,638
Other receivables	17,173	6,879
Other non-current financial receivables	**17,285**	**48,616**
Advances to suppliers and contractors	-	2,295
Other non-current non-financial receivables	**-**	**2,295**
	17,285	**50,911**

15 Borrowings

	Interest rate	Denominated in	Maturity	31 December 2008	31 December 2007
Long-term loan:					
Bonds	9.9%	RR	November 2009	153,045	1,009,221
Long-term loan 1	11%	US dollar	September 2009	-	50,901
Long-term loan 2	16%	RR	September 2009	-	1,730
Long-term loan 3	13%	BYR	December 2010	787	-
				153,832	**1,061,852**
Less: short-term portion of bond				(153,045)	(1,009,221)
				787	**52,631**

In October 2006 one of the Group subsidiaries, HYDROMASHSERVICE CJSC, issued 1,000 thousand non-convertible three-year Russian Rouble denominated bonds (at par value 1,000 roubles each) for RR 1,000,000. The bonds bear interest rate of 9.9% per annum. The interest is payable every six months. The bonds are classified as short-term bonds as at 31 December 2008. The fair value of the bonds, which is based on market quotations, approximates RR 107,132 (2007: RR 887,321).

The bonds are secured by guarantees issued by the Group companies (Livhydromash OJSC, Livnynasos OJSC, Neftemash OJSC, HYDROMASHINPROM CJSC).

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

	Interest rate	Denominated in	31 December 2008	31 December 2007
Short-term unsecured bank loans and borrowings				
Unsecured bank loan 1	10-28%	RR	2,991,440	1,603,300
Unsecured bank loan 2	7,09-27,58%	RR	500,000	100,000
Unsecured bank loan 3	16,3%	RR	148,066	-
Unsecured bank loan 4	13-18%	RR	45,000	-
Unsecured bank loan 5	15%	RR	15,000	-
			3,699,506	**1,703,300**
Short-term secured bank loans				
Secured bank loan 1	10-11%	RR	-	95,000
Secured bank loan 2	10%	RR	-	9,737
Secured bank loan 3	10,75%	US dollars	128,769	47,070
Secured bank loan 4	20-30%	UAH	3,470	28,296
Secured bank loan 5	14,5%	UAH	3,470	4,674
Secured bank loan 6	15-16%	RR	47,034	-
Secured bank loan 7	16,5%	US dollars	13,170	-
Secured bank loan 8	9,5%	EUR	10,416	-
Secured bank loan 9	13,5-14%	BYR	9,506	-
Secured bank loan 10	24%	UAH	7,731	-
Secured bank loan 11	0%	BYR	1,764	-
			225,330	**184,777**
Current portion of long-term bonds			153,045	1,009,221
Interest on short-term borrowings			4,041	1,554
Short-term loans and borrowings			**4,081,922**	**2,898,852**

(in thousands of Russian Roubles, unless otherwise stated)

15 Borrowings (continued)

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

	31 December 2008	31 December 2007
RR	3,903,624	2,820,542
US Dollar	141,939	97,971
EURO	10,416	-
BYR	12,059	-
UAH	14,671	32,970
	4,082,709	**2,951,483**

As at 31 December 2008 the Group pledged property, plant and equipment and inventories in total amounts of RR 138,006 and 77,991 (2007: RR 192,522 and RR 204,823), respectively, as a security for borrowings.

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

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

16 Finance Lease Liabilities

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

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

17 Retirement Benefit Obligations

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

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

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

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

The following amounts were recognized in the consolidated income statement:

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

(in thousands of Russian Roubles, unless otherwise stated)

17 Retirement Benefit Obligations (continued)

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

The amounts recognized in the consolidated balance sheet were determined as follows:

	31 December 2008	31 December 2007
Present value of defined benefit obligations	149,754	129,952
Unrecognised actuarial (gains)/losses	-	-
Unrecognised past service cost	(11,614)	-
Liability in the balance sheet	**138,140**	**129,952**

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

	31 December 2008	31 December 2007
Present value of defined benefit obligations at the beginning of the year	129,952	90,292
Service cost	16,673	3,220
Interest expense	10,861	7,820
Actuarial (gains)/losses	(21,605)	34,090
Benefits paid	(7,619)	(5,470)
Exchange adjustments	(13,907)	-
Business combination	4,913	-
Past service cost	30,486	-
Present value of defined benefit obligations as at the end of year	**149,754**	**129,952**

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

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

The expected contributions under voluntary pension programs in 2009 are expected in the amount close to RR 17,242.

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

18 Construction Contracts

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

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

	2008	2007
Construction contracts revenue	4,871,963	3,150,626
Contract cost expensed	(4,296,536)	(2,876,204)
Gross margin	**575,427**	**274,422**

	2008	2007
Advances, received for construction contracts	209,294	326,640
Retentions	35,299	61,739

(in thousands of Russian Roubles, unless otherwise stated)

18 Construction Contracts (continued)

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

	31 December 2008	31 December 2007
Aggregate amount of contract cost incurred	2,950,927	1,323,516
Aggregate amount of recognized profits	420,331	120,407
Less: Progress billings	(3,113,521)	(1,383,696)
Gross amount due from customers for contract work	**257,737**	**60,227**

	31 December 2008	31 December 2007
Aggregate amount of contract cost incurred	2,376,939	2,161,863
Aggregate amount of recognized profits	481,922	358,378
Aggregate amount of recognized losses	-	(10,123)
Less: Progress billings	(2,906,901)	(2,690,073)
Gross amount due to customers for contract work	**(48,040)**	**(179,955)**

Amounts due to and due from customers are disclosed in Notes 13 and 21.

19 Other Provisions for Liabilities and Charges

	31 December 2008	31 December 2007
Warranty provision	27,111	14,656
Other long-term payables	-	13,702
Long-term advances from customers	-	1,236
	27,111	**29,594**

20 Other Taxes Payable

	2008	2007
Value added tax	247,927	109,036
Personal income tax	27,294	24,819
Unified social tax	30,689	35,660
Property tax	8,049	4,880
Transport tax	1,639	1,484
Land tax	1,749	1,100
Water tax	41	1,044
Other taxes	2,706	3,646
	320,094	**181,669**

21 Trade and Other Payables

	2008	2007
Trade payables	947,258	2,137,632
Other payables	128,325	93,991
Financial trade and other payable	**1,075,583**	**2,231,623**
Advances from customers	1,938,074	1,143,941
Payables due to customers for construction work in progress (Note 18)	48,040	179,955
Wages and salaries payable	180,040	196,744
Unused vacation allowance	150,306	103,990
Provisions for legal claims	21,918	-
Other non-financial payable	**2,338,378**	**1,624,630**
Total trade and other payable	**3,413,961**	**3,856,253**

22 Share Capital

At 31 December 2007 the charter capital of the Company consisted of registered, issued and fully paid participant's units for the total par value of RR 218,080.

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

(in thousands of Russian Roubles, unless otherwise stated)

22 Share Capital (continued)

On 29 August 2008 the Company changed its legal form from a limited liability company to an open joint stock company named HMS Group OJSC. The interests held by the Company's participants of RR 591,180 (Note 23) exchanged to 1,182,360,600 ordinary shares of RR 0.5 par value each, and the ownership ratios of the participants remained intact. As a result, the Company's equity participants no longer have a right to request redemption of their interests in the Company.

At 31 December 2008 the retained earnings and other reserves also include a revaluation gain of RR 37,035 resulting from fair value adjustment to the assets and liabilities in the previously held interest of Promburvod Plant OJSC following the acquisition in December 2008 (see Note 9).

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

During 2008, dividends were accrued only to the holders of preference shares reflected in the amount of RR 291,726 (2007: RR 221,689 for the whole year), but no dividends were paid to shareholders or minority holders of common shares. As a result, redistribution of net assets to minority holders of preference shares and common shares was reflected in these consolidated financial statements.

23 Net Assets Attributable to Participants

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

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

In May 2008 the participants of the Company increased the charter capital from RR 218,080 to RR 591,180 through making capital contribution of 100% of shares of Hydromashkomplekt LLC with its 100% subsidiary Business Center HYDROMASH LLC to the Group.

The summary of assets and liabilities contributed are as follows:

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

(in thousands of Russian Roubles, unless otherwise stated)

23 Net assets attributable to participants (continued)

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

24 Income Taxes

The Group income tax charges were as follows:

	31 December 2008	31 December 2007
Current tax	329,148	324,654
Deferred tax	(83,479)	(147,964)
Effect of the change in the tax rate	(32,031)	-
Total income tax charge	**213,638**	**176,690**

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

	31 December 2008	31 December 2007
Income before tax	**580,803**	**667,872**
Estimated tax charge at statutory rate (24%)	(139,393)	(160,289)
Effect of different tax rates on other jurisdictions	2,047	(83)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible social expenditures	(36,030)	(11,987)
Non-deductible depreciation	(3,882)	(2,695)
Other non-deductible expenses	(68,411)	(1,636)
Effect of the change in the tax rate	32,031	-
Income tax charge	**(213,638)**	**(176,690)**

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

(in thousands of Russian Roubles, unless otherwise stated)

24 Income Tax (continued)

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

Deferred tax assets:

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

Deferred tax liabilities:

	31 December 2008	31 December 2007
Deferred tax liabilities to be settled within 12 months	-	-
Deferred tax liabilities to be settled after more than 12 months	(240,670)	(237,553)
Total deferred tax liabilities	**(240,670)**	**(237,553)**
Deferred tax liabilities (net)	**(199,670)**	**(179,842)**

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

	1 January 2008	Credited/ (charged) to profit or loss	Acquisitions	Effect of change in income tax rate	31 December 2008
Deferred tax liabilities					
Property, plant and equipment	(273,926)	40,119	(135,789)	53,727	(315,869)
Intangible assets	(10,405)	7,151	(8,298)	667	(10, 885)
Short-term trade receivables	-	(23,758)	881	3,082	(19,795)
Inventory	(24,235)	24,235	-	-	-
Cash and cash equivalents	-	(2,451)	-	-	(2,451)
Long-term trade receivables	-	(104)	-	18	(86)
Finance lease liability	-	330	-	(871)	(541)
Short-term borrowings	(9)	(23)	-	(4)	(36)
	(308,575)	**45,499**	**(143,206)**	**56,619**	**(349,663)**
Deferred tax assets					
Inventory	-	8,505	1,818	(4,095)	6,228
Short-term trade receivables	9,786	(9,786)	-	-	-
Other current assets	9,409	(8,092)	-	(218)	1,099
Long-term trade receivables	2,108	(2,108)	-	-	-
Other non-current assets	215	690	-	(256)	649
Long-term liabilities	8,900	(3,686)	-	-	5,214
Long-term provisions	3,215	6,446	37	(1,021)	8,677
Losses of last year	-	23,943	-	(3,991)	19,952
Trade and other payables	77,372	4,561	4,781	(9,262)	77,452
Other taxes payable	155	6,023	-	(900)	5,278
Short-term provisions	17,573	11,484	1,232	(4,845)	25,444
	128,733	**37,980**	**7,868**	**(24,588)**	**149,993**
Total net deferred tax liability	**(179,842)**	**83,479**	**(135,338)**	**32,031**	**(199,670)**

(in thousands of Russian Roubles, unless otherwise stated)

24 Income Tax (continued)

	1 January 2007	Credited/ (charged) to profit or loss	Acquisitions	31 December 2007
Deferred tax liabilities				
Property, plant and equipment	(246,186)	86,960	(114,700)	(273,926)
Intangible assets	(2,249)	(7,380)	(776)	(10,405)
Inventory	(42,905)	28,958	(10,288)	(24,235)
Other current assets	(3,660)	3,660	-	-
Long-term borrowings	(1,141)	1,132	-	-
	(296,141)	**113,330**	**(125,764)**	**(308,575)**
Deferred tax assets				
Short-term trade receivables	27,493	(20,125)	2,418	9,786
Other current assets	2,209	7,200	-	9,409
Long-term trade receivables	-	1,919	189	2,108
Other non-current assets	-	134	81	215
Long-term liabilities	-	(1,483)	10,383	8,900
Long-term provisions	-	3,215	-	3,215
Short-term borrowings	702	(702)	-	-
Trade and other payables	5,833	27,638	43,901	77,372
Other taxes payable	-	155	-	155
Short-term provisions	-	16,683	890	17,573
	36,237	**34,634**	**57,862**	**128,733**
Total net deferred tax liability	**(259,904)**	**147,964**	**(67,902)**	**(179,842)**

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

25 Revenues

	2008	2007
Revenue from construction contracts	4,871,963	3,150,626
Sales of pumps and spare parts	4,786,136	4,499,742
Sales of oilfield equipment	3,312,964	2,747,003
Sales of repair services for oil-field equipment	790,553	753,446
Sales of engines	280,726	413,075
Sales of products, work and services of auxiliary units	87,839	182,889
Sales of special equipment	(597,750)	988,951
Sales of other services and goods	559,930	663,624
	14,092,361	**13,399,356**

26 Cost of Sales

	2008	2007
Supplies and raw materials	5,533,731	5,378,097
Labour costs	1,974,701	1,567,194
Cost of goods sold	1,365,668	2,605,599
Construction and installation works of subcontractors	971,905	470,692
Deprecation and amortization	256,542	210,677
Utilities	142,959	122,593
Inventory impairment provision	56,993	48,383
Research and development costs	22,340	23,379
Warranty provision	12,422	11,709
Change in work in progress and finished goods	(268,542)	(250,356)
Other expenses	703,970	619,034
	10,772,689	**10,807,001**

(in thousands of Russian Roubles, unless otherwise stated)

27 Distribution and Transportation Expenses

	2008	2007
Labour costs	164,457	122,082
Transport expenses	142,517	115,529
Packaging expenses	37,660	11,292
Depreciation and amortization	37,452	33,981
Entertaining costs and business trip expenses	26,456	23,279
Insurance	18,594	23,759
Advertising	18,221	9,761
Lease	16,066	17,905
Customs duties	9,930	3,491
Capital assets repair and maintenance	3,953	2,442
Products certification	2,239	1,914
Agency services	2,049	-
Other expenses	37,899	34,190
	517,493	**399,625**

28 General and Administrative Expenses

	2008	2007
Labour costs	964,569	702,737
Audit and consultancy services	119,324	49,664
Taxes and duties	79,607	79,873
Stationary and office maintenance	70,973	53,189
Depreciation and amortization	50,044	30,753
Entertaining costs and business trip expenses	47,096	26,011
Bank services	35,207	19,261
Provision for impairment of accounts receivable	32,694	69,373
Property, plant and equipment repair and maintenance	29,293	13,486
Telecommunications services	26,813	15,084
Security	26,130	16,248
Defined benefits scheme expenses	24,801	45,130
Rent	24,788	2,358
Insurance	22,662	15,333
Provisions for legal claims	19,137	-
Training and recruitment	10,178	9,524
Other expenses	70,067	80,147
	1,653,383	**1,228,171**

29 Other Operating Expenses, Net

	2008	2007
Charity, social expenditures	73,245	52,726
Loss on sales and other disposal of property, plant and equipment and intangible assets	30,382	27,273
Loss on sales of inventories	20,833	2,702
Foreign exchange loss/(gain), (net)	14,388	(4,422)
Fines and late payment interest under contracts	9,956	2,735
Depreciation of social assets	3,790	1,761
(Gain)/loss on disposal of subsidiaries	(6,208)	2,592
(Income)/expenses on transactions with securities	(5,466)	1,839
Investments impairment provision reverse	(5,195)	(1,352)
Dividend income	-	(9)
Other expenses	53,751	14,927
	189,476	**100,772**

30 Finance Income

	2008	2007
Interest income	26,450	35,053
	26,450	**35,053**

(in thousands of Russian Roubles, unless otherwise stated)

31 Finance Costs

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

32 Balances and Transactions with Related Parties

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

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

The table below contains the disclosure by group of related parties with which the Company entered into significant transactions or has significant balances outstanding. Other category comprises the parties indirectly controlled by the Group through one or more intermediaries:

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

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

No provision was made for bad debts accounts receivable from related parties.

Neither party issued guaranties to secure accounts receivable or payable.

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

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

In 2008, the Group issued loans to related parties for a total of RR 75,160 with a weighted average interest rate of 14% (2007:RR 24,500).

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

32 Balances and Transactions with Related Parties (continued)

Key management compensation

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

33 Contingencies and Commitments

(i) Legal proceeding

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

(ii) Tax legislation

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

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

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

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

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

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

In addition to the above transfer pricing matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RR 25,260 thousand. These exposures primarily relate to bonuses to employees and return of goods.

33 Contingencies, Commitments (continued)

(iii) Environmental matters

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

(iv) Operating environment of the Group

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

Wholesale financing has become much less available since August 2007. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

The debtors of the Group may also be affected by the tighter liquidity situation which could in turn impact their ability to repay amounts owed. Deteriorating operating conditions for customers may also have an impact on the ability of management to forecast cash flow and assess of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in its impairment assessments.

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the RR has depreciated significantly against some major currencies. The official USD exchange rate of the Central Bank of the Russian Federation increased from RR 24.55 at 1 January 2008 to RR 29.38 at 31 December 2008 and RR 31.26 at date of issuance of these consolidated financial statements. International reserves of the Russian Federation decreased from USD 478,762 million at 1 January 2008 to USD 427,080 million at 31 December 2008 and to USD 404,171 million at 1 June 2009.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the Group's operating environment as a result of the ongoing crisis. It believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

As a result of world liquidity crisis revenue of the Group decreased by 21% for the first quarter of 2009 in comparison to the first quarter of 2008.

(v) Insurance policies

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

(vi) Contractual commitments

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

(in thousands of Russian Roubles, unless otherwise stated)

33 Contingencies, Commitments (continued)

(vii) Compliance with covenants

Under the terms of its loan agreements the Group is required to comply with a number of covenants, including maintenance of the certain level of net assets, obtaining new credit facilities, lack of outstanding payables to employees for period of more than one month and certain other requirements.

During the year and as at 31 December 2008 the Group was not in compliance with certain covenants of the bank loans, including covenants which require the Group to maintain its net assets at certain level, obtaining new credit facilities, lack of payables to employees. Due to the breach of these covenants, the banks are contractually entitled to request early repayment of the outstanding amounts of RR 362,412, including bank loans of RR 364,150 with original maturities of less than twelve months after the balance sheet date.

None of the bank loans where the breach of loan's covenants existed at 31 December 2008 has been called by the lender either at 31 December 2008 or during the subsequent period through to the date of these consolidated financial statements.

Subsequent to the year end, the loan agreement in the amount of RR 214,150 was extended till 31 December 2009. The Group's management believes that measures undertaken and preliminary agreements achieved will allow the Group to avoid further breaches of covenants and ensure future compliance with the terms of the loan agreements.

34 Segment Information

The Group early adopted IFRS 8, *Operating Segments,* for the year ended 31 December 2008 and 2007. Management has determined the operating segments based on the management reports, which are primarily derived from statutory records and regularly reconciled to IFRS financial statements The management reports are reviewed by the chief operating decision-maker that are used to make strategic decisions. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the General Director of the Company. The following criteria have been used for determining the operating segments and assigning the Group subsidiaries to particular segment:

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

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

The **first** operating segment "**Industrial pumps**" includes:

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

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

1	Neftemash OJSC	Neftemash OJSC
2	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
3	HYDROMASHINPROM CJSC	
4	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC

34 Segment Information (continued)

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

1	Trest Sibkomplektmontaghnaladka OJSC	Trest Sibkomplektmontaghnaladka OJSC
2	Tomskgazstroy OJSC	Tomskgazstroy OJSC
3		Otdelochnik Tomskgazstroy LLC

The table below contains **other** companies that did not fall under the above listed operating segments:

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

List of associates with the breakdown by operating segments:

The first operating segment "Industrial pumps" includes:

	2008	2007
1	VNIIAEN OJSC	VNIIAEN OJSC
2		Promburvod Plant OJSC
3		Promburvod Trade House LLC
4	Vodokanalproektirovanie LLC	

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

	2008	2007
1	Dimitrovgradkhimmash OJSC	Dimitrovgradkhimmash OJSC
2	Sibnefteavtomatika	

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

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

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

Management assesses the performance of operating segments based on certain measures, which are presented to chief operating decision maker. This includes the financial information on the group operating reportable segments presented in accordance with Russian Statutory Accounting regulations (RSA). The information comprises measures of revenues, EBITDA, depreciation and amortization, interest income, interest expense, income tax expense and total assets. The other measures used by chief operating decision maker include income tax charge and aggregate share in net profit of associates recorded based on equity method, which are calculated and presented in accordance with International Financial Reporting Standards. Besides, management uses EBITDA, which is derived from consolidated financial statements prepared in accordance with International Financial Reporting Standards. For this purpose EBITDA is defined as operating profit/loss adjusted for other income/expenses, depreciation and amortization, inventory impairment provisions, provision for impairment of accounts receivable, unused vacation allowance, excess of fair value of net assets acquired over the cost of acquisition.

The RSA segment reporting information and EBITDA are reconciled to the amounts reported in the Group's consolidated financial statements prepared in accordance with International Financial Reporting Standards.

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

(in thousands of Russian Roubles, unless otherwise stated)

34 Segment Information (continued)

The Group's financial performance by operating segments:

Disclosures by segments	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions between operating segments	Consolidated for the year ended 31 December 2008
Revenue, RSA	7,218,201	4,510,034	5,450,769	655,718	17,834,722	-	**17,834,722**
EBITDA	822,030	528,762	300,910	68,463	1,720,165	(30,188)	**1,689,977**
Depreciation and amortization, RSA	(63,227)	(44,541)	(82,360)	(5,185)	(195,313)	-	**(195,313)**
Finance income, RSA	47,516	18,464	386	4,638	71,004	-	**71,004**
Finance cost, RSA	(292,111)	(79,905)	(48,366)	(25,671)	(446,053)	-	**(446,053)**
Income tax charge, IFRS	(94,944)	(90,892)	(56,218)	28,416	(213,638)	-	**(213,638)**
Aggregate share in net profit of associates recorded in consolidated accounts based on equity method, IFRS	21,620	27,824	-	-	49,444	-	**49,444**
Expenditures for reportable segment non-current assets	740,108	79,486	307,786	513,905	1,642,285	-	**1,642,285**
Investments in associates	144,280	305,568	-	-	449,848	-	**449,848**
Total assets, RSA	6,037,181	3,543,720	2,309,147	1,724,888	13,614,936	-	**13,614,936**

Disclosures by segments	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions between operating segments	Consolidated for the year ended 31 December 2007
Revenue, RSA	8,040,910	3,817,413	3,555,879	310,297	15,724,499	-	**15,724,499**
EBITDA	685,861	501,103	248,738	(10,511)	1,425,191	-	**1,425,191**
Depreciation and amortization, RSA	(41,611)	(37,291)	(39,190)	(2,785)	(120,877)	-	**(120,877)**
Finance income, RSA	4,903	287	2,149	265	7,604	-	**7,604**
Finance cost, RSA	(168,138)	(37,066)	(35,564)	(22)	(240,790)	-	**(240,790)**
Income tax charge, IFRS	(97,699)	(89,207)	(56,218)	28,854	(214,270)	-	**(214,270)**
Aggregate share in net profit of associates recorded in consolidated accounts based on equity method, IFRS	9,154	8,975	-	-	18,129	-	**18,129**
Expenditures for reportable segment non-current assets	202,256	118,784	1,094,243	10,728	1,426,011	-	**1,426,011**
Investments in associates	193,465	223,395	-	-	416,860	-	**416,860**
Total assets, RSA	6,351,468	2,163,174	1,949,882	445,397	10,909,921	-	**10,909,921**

Reportable segment revenue is reconciled to the Group's revenue as follows:

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions between operating segments	Consolidated for the year ended 31 December 2008
Revenue, RSA	**7,218,201**	**4,510,034**	**5,450,769**	**655,718**	**17,834,722**	**-**	**17,834,722**
Construction contracts	-	-	329,443	-	329,443	-	**329,443**
Reclassification to Other Income	(2,005)	(5,156)	(524,784)	(890)	(532,835)	-	**(532,835)**
Return of goods	(597,750)				(597,750)	-	**(597,750)**
Other adjustments	7,215	(55,694)	(4,936)	(1,436)	(54,851)	-	**(54,851)**
Elimination of intercompany transactions	(2,046,941)	(323,529)	-	(515,071)	(2,885,541)	-	**(2,885,541)**
Unrealised profit	(827)	-	-	-	(827)	-	**(827)**
Transactions between operating segments	394,662	-	-	417,431	812,093	(812,093)	**-**
Revenue, IFRS	**4,972,555**	**4,125,655**	**5,250,492**	**555,752**	**14,904,454**	**(812,093)**	**14,092,361**

(in thousands of Russian Roubles, unless otherwise stated)

34 Segment Information (continued)

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions between operating segments	Consolidated for the year ended 31 December 2007
Revenue, RSA	**8,040,910**	**3,817,413**	**3,555,879**	**310,297**	**15,724,499**		**15,724,499**
Construction contracts	-	-	51,676	-	51,676	-	51,676
Reclassification to Other Income	7,405	(49,195)	6,542	-	(35,248)	-	(35,248)
Other adjustments	(2,327)	461	-	-	(1,866)	-	(1,866)
Elimination of intercompany transactions	(1,856,949)	(234,456)	-	(248,300)	(2,339,705)	-	(2,339,705)
Transactions between operating segments	14,298	-	-	181,771	196,069	(196,069)	-
Revenue, IFRS	**6,203,337**	**3,534,223**	**3,614,097**	**243,768**	**13,595,425**	**(196,069)**	**13,399,356**

Reconcicliation of EBITDA derived from IFRS accounting records to Profit before income tax as per consolidated income statement:

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions between operating segments	Consolidated for the year ended 31 December 2008
EBITDA, IFRS	**822,030**	**528,762**	**300,910**	**68,463**	**1,720,165**	**(30,188)**	**1,689,977**
Depreciation and amortization	(102,068)	(62,396)	(174,861)	(8,503)	(347,828)	-	(347,828)
Non-monetary items*	(63,916)	(21,025)	(105,551)	(2,861)	(193,353)	-	(193,353)
Excess of fair value of net assets acquired over the cost of acquisition	33,958	-	-	-	33,958	-	33,958
Other income and expense	(83,500)	(69,550)	(8,036)	(28,390)	(189,476)	-	(189,476)
Operating Profit/Loss	**606,504**	**375,791**	**12,462**	**28,709**	**1,023,466**	**(30,188)**	**993,278**
Finance Income	36,054	7,708	(440)	(5,229)	38,093	(11,643)	26,450
Finance Cost	(353,199)	(70,482)	(60,303)	(16,028)	(500,012)	11,643	(488,369)
Share of results associates	21,620	27,824	-	-	49,444	-	49,444
Profit/(loss) before Income Tax, IFRS	**310,979**	**340,841**	**(48,281)**	**7,452**	**610,991**	**(30,188)**	**580,803**

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions between operating segments	Consolidated for the year ended 31 December 2007
EBITDA, IFRS	**685,861**	**501,103**	**248,738**	**(10,511)**	**1,425,191**	**(2,023)**	**1,423,168**
Depreciation and amortization	(72,431)	(69,789)	(132,207)	(2,745)	**(277,172)**	-	**(277,172)**
Non-monetary items*	(98,314)	(48,673)	(30,238)	(4,212)	**(181,437)**	-	**(181,437)**
Other income and expense	(71,854)	(18,663)	(8,001)	(2,254)	**(100,772)**	-	**(100,772)**
Operating Profit/Loss	**443,262**	**363,978**	**78,292**	**(19,722)**	**865,810**	**(2,023)**	**863,787**
Finance Income	7,595	10,119	11,230	6,109	**35,053**	-	**35,053**
Finance Cost	(167,769)	(21,598)	(35,136)	(163)	**(224,666)**	-	**(224,666)**
Exchange gains and losses	(19,342)	(2,153)	(4,068)	1,133	**(24,430)**	-	**(24,430)**
Share of results associates	9,154	8,974	-	-	**18,128**	-	**18,128**
Profit/(loss) before Income Tax, IFRS	272,900	359,320	50,318	(12,643)	**669,895**	(2,023)	**667,872**

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

(in thousands of Russian Roubles, unless otherwise stated)

34 Segment Information (continued)

Reconciliation of reportable segment depreciation and amortization to the Group depreciation and amortization:

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions and balances between operating segments	Consolidated for the year ended 31 December 2008
Depreciation and amortization, RSA	**(63,227)**	**(44,541)**	**(82,360)**	**(5,185)**	**(195,313)**	-	**(195,313)**
Uplift due to revaluation of property plant and equipment for IFRS	(38,841)	(17,855)	(92,501)	(3,318)	(152,515)	-	(152,515)
Depreciation and amortization, IFRS	**(102,068)**	**(62,396)**	**(174,861)**	**(8,503)**	**(347,828)**	-	**(347,828)**

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions and balances between operating segments	Consolidated for the year ended 31 December 2007
Depreciation and amortization, RSA	**(41,611)**	**(37,291)**	**(39,190)**	**(2,785)**	**(120,877)**	-	**(120,877)**
Uplift due to revaluation of property plant and equipment for IFRS	(30,820)	(32,498)	(93,017)	40	(156,295)	-	(156,295)
Depreciation and amortization, IFRS	**(72,431)**	**(69,789)**	**(132,207)**	**(2,745)**	**(277,172)**	-	**(277,172)**

Reconciliation of reportable segment finance Income and finance costs:

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions and balances between operating segments	Consolidated for the year ended 31 December 2008
Interest income, RSA	**47,516**	**18,614**	**386**	**4,638**	**71,154**	-	**71,154**
Discounting of long-term liabilities	3,373	1,022	(826)	280	3,849	-	3,849
Other income	560	-	-		560	-	560
Intersegments transactions	(15,395)	(11,928)	-	(10,147)	(37,470)	(11,643)	(49,113)
Interest income, IFRS	**36,054**	**7,708**	**(440)**	**(5,229)**	**38,093**	**(11,643)**	**26,450**
Interest cost, RSA	**(292,111)**	**(79,905)**	**(48,366)**	**(25,671)**	**(446,053)**	-	**(446,053)**
Finance lease expenses	(157)	(985)	(11,937)	-	(13,079)	-	(13,079)
Intersegments transactions	17,420	10,408	-	9,643	37,471	11,642	49,113
Other expense	(4,002)	-	-	-	(4,002)	-	(4,002)
Exchange gains and losses	(74,348)	-	-	-	(74,348)	-	(74,348)
Interest cost, IFRS	**(353,198)**	**(70,482)**	**(60,303)**	**(16,028)**	**(500,011)**	**11,642**	**(488,369)**

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions and balances between operating segments	Consolidated for the year ended 31 December 2007
Interest income, RSA	**4,903**	**287**	**2,149**	**265**	**7,604**	-	**7,604**
Discounting of long-term liabilities	2,692	9,831	8,256	5,844	26,623	-	26,623
Other income	-	-	826		826	-	826
Interest income, IFRS	**7,595**	**10,118**	**11,231**	**6,109**	**35,053**	-	**35,053**
Interest cost, RSA	**(168,138)**	**(37,066)**	**(35,564)**	**(22)**	**(240,790)**	-	**(240,790)**
Finance lease expenses and effect of discounting of long-term liabilities	(4,685)	(673)	787	(164)	(4,735)	-	(4,735)
Intersegments transactions	5,108	16,153	(288)	22	20,995	-	20,995
Exchange gains and losses	(19,342)	(2,153)	(4,068)	1,133	(24,430)	-	(24,430)
Other expense	(54)	(12)	(71)	-	(137)	-	(137)
Interest cost, IFRS	**(187,111)**	**(23,751)**	**(39,204)**	**969**	**(249,097)**	-	**(249,097)**

(in thousands of Russian Roubles, unless otherwise stated)

34 Segment Information (continued)

Reconciliation of reportable segment total assets to the Group assets as per balance sheet:

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions and balances between operating segments	Consolidated for the year ended 31 December 2008
Total assets RSA	**6,037,181**	**3,543,720**	**2,309,147**	**1,724,888**	**13,614,936**	**-**	**13,614,936**
IFRS Adjustment tangible/intangible assets (fair value)	601,365	335,621	533,274	80,621	1,550,881	-	1,550,881
Provision for obsolete inventories	(64,014)	(35,431)	(16,999)	(108)	(116,552)	-	(116,552)
Provision for doubtful trade and other receivables	(34,072)	(9,063)	(87,452)	(4,154)	(134,741)	-	(134,741)
Construction contracts	-	-	257,737	-	257,737	-	257,737
Leasing adjustment	2,402	10,912	55,276	-	68,590	-	68,590
Inventory adjustment	(15,727)	(15,493)	(112,721)	21,032	(122,909)	-	(122,909)
Cut-off and net off of accounts receivable, accounts payable)	(18,974)	(4,953)	(251,994)	(1,289)	(277,210)	-	(277,210)
Accruals	24,454	(29,193)	-	(316)	(5,055)		(5,055)
Deferred Tax adjustment	(10,484)	(7,350)	(24,211)	2,527	(39,518)	-	(39,518)
Goodwill	99,353		207,329	-	306,682	-	306,682
Share in associates	(21,532)	39,725	-	-	18,193	-	18,193
Elimination of Intercompany investments	(948,317)	(396,135)	(61,731)	(942,816)	(2,348,999)	-	(2,348,999)
Elimination of Intercompany accounts receivable	(1,078,047)	(383,236)		(182,269)	(1,643,552)	-	(1,643,552)
Intersegments transactions	518,510	300,182	61,731	238,805	1,119,228	(1,119,228)	
Other adjustments	(75,910)	(18,596)	15,486	(404)	(79,424)	-	(79,424)
Total assets IFRS	**5,016,188**	**3,330,710**	**2,884,872**	**936,517**	**12,168,287**	**(1,119,228)**	**11,049,059**

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions and balances between operating segments	Consolidated for the year ended 31 December 2007
Total assets RSA	**6,351,468**	**2,163,174**	**1,949,882**	**445,397**	**10,909,921**	**-**	**10,909,921**
IFRS Adjustment tangible/intangible assets (fair value)	364,405	384,887	617,670	(38)	1,366,924	-	1,366,924
Provision for obsolete inventories	(56,088)	(595)	(11,456)	(73)	(68,212)	-	(68,212)
Provision for doubtful trade and other receivables	(70,956)	(23,108)	(41,003)	-	(135,067)	-	(135,067)
Construction contracts	-	-	60,210	-	60,210	-	60,210
Leasing adjustment	2,529	12,201	66,165	-	80,895	-	80,895
Inventory adjustment	13,065		12,557	-	25,622	-	25,622
Cut-off (net off of accounts receivable, accounts payable)	55,930	(1,099)	(79,565)	(135)	(24,869)	-	(24,869)
Deferred Tax adjustment	(710)	3,412	18,673	9,343	30,718	-	30,718
Elimination of Intercompany investments	(642,928)	(144,041)	(270)	(311,039)	(1,098,278)	-	(1,098,278)
Other adjustments	(43,066)	(49,705)	-	(3,540)	(96,311)	-	(96,311)
Intersegments transactions (intercompany accounts receivables, unrealized profit)	(1,304,748)	(139,813)	197,988	(53,724)	(1,300,297)	(10,914)	(1,311,211)
Other assets	58,474	-	-	-	58,474	-	58,474
Total assets IFRS	**4,727,375**	**2,205,313**	**2,790,851**	**86,191**	**9,809,730**	**(10,914)**	**9,798,816**

The amounts provided to management with respect to total liabilities are not separately reviewed by chief operating decision maker and allocated based on the operations of the segment. The Group's liabilities are not considered to be segment liabilities but rather are managed by the treasury function.

(in thousands of Russian Roubles, unless otherwise stated)

34 Segment Information (continued)

The major part of revenue relates to the customers, which account for less than 10% of total revenues each, and 68% of total revenues in aggregate. Revenues of approximately RR 4,861,252 (2007: 2,802,166) are derived from a few single external customers and presented below based on accounting records used to prepare IFRS financial statements.

Revenue by major customers	Industrial pumps	Oil and gas equipment	Oil and gas construction	Other unallocated	Consolidated revenue for the year ended 31 December 2008 including transactions between business segments
Revenues by counteragents without dividing by countries, Including	**4,972,555**	**4,125,655**	**5,250,492**	**555,752**	**14,904,454**
NORD IMPERIAL	-	-	1,064,541	-	1,064,541
NOVATEK-Purovskiy	-	-	901,332	-	901,332
ORION-STROY LLC	-	-	806,367	-	806,367
TNK BP Holding	-	593,364	-	-	593,364
Gaspromneft –Vostok OJSC	-	-	684,321	-	684,321
Vankorneft JSC	275,898	368,953	-	-	644,851
Other (less than 10% each)	4,696,657	3,163,338	1,793,931	555,752	10,209,678

Revenue by major customers	Industrial pumps	Oil and gas equipment	Oil and gas construction	Other unallocated	Consolidated revenue for the year ended 31 December 2007 including transactions between business segments
Revenues by counteragents without dividing by countries, Including	**6,203,337**	**3,534,223**	**3,614,097**	**243,768**	**13,595,425**
Ministry of Water Management of Iraq	988,950	-	-	-	988,950
ORION-STROY LLC	-	-	1,005,096	-	1,005,096
Gaspromneft OJSC	337,466	470,654	-	-	808,120
Other (less than 10% each)	4,876,921	3,063,569	2,609,001	243,768	10,793,259

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

Disclosures by segments	Industrial pumps	Oil and gas equipment	Oil and gas construction	Other unallocated	Consolidated revenue for the year ended 31 December 2008 including transactons between business segments	Non-current Assets
Revenues by countries of buyers of products and services	**4,972,555**	**4,125,655**	**5,250,492**	**555,752**	**14,904,454**	**4,738,342**
Including						
Russia	4,786,302	3,921,127	5,250,492	492,769	14,450,690	3,410,768
Ukraine	202,164	-	-	8,614	210,778	1,160,037
Kazakhstan	202,488	184,086	-	-	386,574	-
Tadzhikistan	22,819	-	-	27,168	49,987	-
Belorussia	162,223	-	-	1,047	163,270	167,537
Uzbekistan	45,558	20,442	-	20,545	86,545	-
Azerbaijan	34,663	-	-	-	34,663	-
Turkmenistan	13,672	-	-	-	13,672	-
India	13,672	-	-	-	13,672	-
UK	7,226	-	-	-	7,226	-
Kyrgyzstan	12,306	-	-	-	12,306	-
Latvia	8,804	-	-	-	8,804	-
Bulgaria	9,068	-	-	-	9,068	-
Iraq	(597,750)	-	-	-	(597,750)	-
Other (less than 10 % each, in total less than 25% of total revenue)	49,340	-	-	5,609	54,949	-

34 Segment Information (continued)

Disclosures by segments	Industrial pumps	Oil and gas equipment	Oil and gas construction	Other unallocated	Consolidated revenue for the year ended 31 December 2007 including transactons between business segments	Non-current Assets
Revenues by countries of buyers of products and services	**6,203,337**	**3,534,223**	**3,614,097**	**243,768**	**13,595,425**	**3,537,813**
Including						
Russia	4,376,453	3,455,912	3,614,097	238,843	11,685,305	3,159,733
Iraq	1,023,557	-	-	-	1,023,557	-
Ukraine	256,987	-	-	-	256,987	338,362
Kazakhstan	164,158	78,311	-	-	242,469	-
Turkmenistan	72,154	-	-	-	72,154	-
Belorussia	68,147	-	-	-	68,147	39,718
UAE	40,671	-	-	-	40,671	-
Uzbekistan	31,390	-	-	-	31,390	-
Azerbaijan	24,984	-	-	-	24,984	-
China	21,470	-	-	-	21,470	-
UK	21,226	-	-	-	21,226	-
Armenia	18,470	-	-	-	18,470	-
Kyrgyzstan	15,924	-	-	-	15,924	-
India	10,793	-	-	-	10,793	-
Bulgaria	10,410	-	-	-	10,410	-
Other (less than 10 % each, in total less than 25% of total revenue)	46,543	-	-	4,925	51,468	-

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

35 Financial Risk Management

Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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

	At 31 December 2008			At 31 December 2007		
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
US Dollars	31,565	(158,715)	(127,150)	89,114	(100,272)	(11,158)
Euros	47,491	(14,748)	32,743	991,946	(945,006)	46,940
Total	**79,056**	**(173,463)**	**(94,407)**	**1,081,060**	**(1,045,278)**	**35,782**

(in thousands of Russian Roubles, unless otherwise stated)

35 Financial Risks Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

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

	31 December 2008	31 December 2007
USD	29.3804	24.5462
EURO	41.4411	35.9332

At 31 December 2008, if the Russian Rouble (RR) had strengthened by 33% against the US dollar with all other variables held constant, post-tax profit for the year would have been RR 37,541 lower (2007: strengthened by 15%, RR 12,941 higher), mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and borrowings.

At 31 December 2008, if the Russian Rouble (RR) had weakened by 33% against the US dollar with all other variables held constant, post-tax profit for the year would have been RR 28,226 higher (2007: weakened by 15%, RR 12,941 lower), mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and borrowings.

At 31 December 2008, if the RR had strengthened by 27% against the EURO with all other variables held constant, post-tax profit for the year would have been RR 4,637 (2007: strengthened by 15%, RR 45,459) higher, mainly as a result of foreign exchange gains/losses on translation of EURO-denominated trade receivables and borrowings.

At 31 December 2008, if the RR had weakened by 27% against the EURO with all other variables held constant, post-tax profit for the year would have been RR 3,651 lower (2007: weakened by 15%, RR 45,459), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated trade receivables and borrowings.

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

(ii) Price risk

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

(iii) Interest rate risk

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

The sales revenue and operating cash flow of the Group mainly do not depend on the change of market interest rates. The Group is exposed to the interest rate risk due to fluctuations of interest rates on short-term borrowings (Note 15). The Group does not have significant interest-bearing assets.

The fair value of the Group's bonds is disclosed in Note 15 and is estimated based on the market quotations. The fair value of the rest of financial instruments is approximately equal to their carrying value.

All other financial instruments are non-interest bearing.

(b) Credit risk

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

(in thousands of Russian Roubles, unless otherwise stated)

35 Financial Risks Management (continued)

(b) Credit risk (continued)

	2008	2007
Trade and other receivables (Note 13, 14)		
- Trade receivables	1,415,141	2,302,816
- Other financial receivables	235,571	192,142
Cash and cash equivalents (Note 11)		
- Bank balances	669,022	375,701
- Cash on hand	1,080	2,392
Total on-balance sheet exposure	**2,320,814**	**2,873,051**
Total maximum exposure to credit risk	**2,320,814**	**2,873,051**

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

Analysis by credit quality of cash on hand, bank balances and term deposits is as follows:

Agency	Rating	31 December 2008	31 December 2007
Fitch***	B	68,518	212,827
Moody's*	Prime-2	431,341	
S&P's**	BBB-	64,190	
Moody's*	Baa2		26,256
IC Rating****	B2		14,907
Moody's*	Ba1	46,849	12,919
S&P's**	BBB+	24,882	
Moody's*	Not Prime	15,057	
Moody's*	Baa2		10,980
S&P's**	B-	5,499	
IC Rating****	B1		6,321
Fitch***	BB-		2,935
Moody's*	B1		2,546
S&P's**	B		74,558
IC Rating****	B1		1,232
Moody's*	Baa2		938
S&P's**	B+		270
S&P's**	BBB		82
Moody's*	Baa2		69
Other	-	13,766	11,253
Total		**670,102**	**378,093**

* International rating agency Moody's Investor Service

** International rating agency Standard & Poor's

*** International rating agency Fitch

****Information Center Rating

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

(in thousands of Russian Roubles, unless otherwise stated)

35 Financial Risk Management (continued)

(b) Credit risk (continued)

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

	2008		2007	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Total current and not impaired, including:	**1,249,669**	**230,137**	**2,188,982**	**192,142**
Large enterprises	820,454	176,949	497,059	76,880
Middle and small size companies	423,978	11,186	609,443	91,494
Government organization and agencies	2,251	78	1,032,626	-
Scientific research institutes	133	216	16,595	-
Individuals	1,680	10,368	-	23,768
Other	1,173	31,340	33,259	-
Total past due but not impaired, including:	**165,472**	**5,434**	**113,834**	-
- less than 60 days overdue	123,891	285	79,446	-
- 61 to 180 days overdue	38,538	-	11,441	-
- 181 to 365 days overdue	3,039	5,149	22,161	-
- over 360 days overdue	4	-	786	-
Individually impaired (gross), including:	**126,729**	**7,822**	**51,387**	**12,242**
Current to be impaired	9,046	2,866	39,310	10,739
- less than 60 days overdue	48,516	159	424	164
- 61 to 180 days overdue	17,280	1206	2,403	505
- 181 to 365 days overdue	11,805	2,609	4,945	360
- over 360 days overdue	40,082	982	4,305	474
Less impairment provision	**(126,729)**	**(7,822)**	**(51,387)**	**(12,242)**
Total	**1,415,141**	**235,571**	**2,302,816**	**192,142**

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

The amount exposed to credit risk relating to financial receivables (the carrying amount of trade and other accounts receivable less doubtful debt provision) as of 31 December 2008 is RR 1,650,712 (2007: RR 2,494,958).

The Group has no significant concentration of credit risk. Presented below is breakdown of most significant balances with individual customers.

	2008		2007	
Major customers	Sales	Trade receivable as at 31 December	Sales	Trade receivable as at 31 December
Industrial pumps				
Customer 1	-	-	988,950	990,185
Customer 2	-	-	337,466	129,863
Customer 3	275,898	8,561	-	-
Other	4,696,656	-	4,876,921	-
Oil and gas equipment				
Customer 4	593,364	90,332	-	-
Customer 5	493,588	119,333	-	-
Customer 6	481,244	50,783	470,654	21,850
Customer 7	368,953	20,738	-	-
Other	2,188,505	-	3,063,570	-
Oil and gas construction				
Customer 8	1,064,541	2,578	-	-
Customer 9	901,332	78,606	-	-
Customer 10	806,367	77,495	1,005,096	84,099
Other	2,478,253	-	2,609,001	-
Other unallocated				
Other	555,753	-	243,768	-
Total	**14,904,454**	**448,426**	**13,595,426**	**1,225,997**

(in thousands of Russian Roubles, unless otherwise stated)

35 Financial Risk Management (continued)

(b) Credit risk (continued)

Total aggregate amount of these balances is RR 448,426 (2007: RR 1,225,997) that represents 29% (2007: 52%) of total trade accounts receivable.

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

(c) Liquidity risk

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

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

Balance sheet item	Carrying amount as at 31 December 2008	Cash flows under the contract: Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank loans*	4,065,613	4,423,743	789	-	-
Other loans*	17,096	17,096			
Finance lease liabilities*	41,543	27,022	16,707	9,225	-
Trade accounts payable	947,258	947,258	-	-	-
Other payables	128,325	123,325	-	-	-

Balance sheet item	Carrying amount as at 31 December 2007	Cash flows under the contract: Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank loans*	2,951,483	2,938,413	405,374	-	-
Finance lease liabilities*	64,204	35,832	26,857	25,905	-
Trade accounts payable	2,137,632	2,137,632	-	-	-
Other payables	93,991	93,991	-	-	-

* As the amounts included in the table are the contractual undiscounted cash flows, these amounts will not reconcile to the amounts disclosed on the balance sheet for borrowings and trade and other payables.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

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

The table below analyses credit lines of the Group as at 31 December 2008 and 31 December 2007:

	31 December 2008	31 December 2007
Credit line in Russian roubles (used)	4,233,789	3,538,824
Undrawn credit facilities	171,885	598,115

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

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

(in thousands of Russian Roubles, unless otherwise stated)

35 Financial Risk Management (continued)

(c) Liquidity risk (continued)

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

	31 December 2008	31 December 2007
Liquidity ratio	0.79	0.88
Current assets	6,252,432	6,152,381
Current liabilities	7,875,413	6,994,859

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

Management of capital. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to reduce the cost of capital. For different borrowings taken by different companies banks provide different interest rates (Note 15).

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

The Group controls capital by calculating a Gearing ratio. This ratio is calculated as the net borrowing divided by total capital. The net borrowing includes all of the long-term and short-term borrowings carried on the Group's consolidated balance sheet less the cash and cash equivalents. The capital is calculated as the sum of equity and net assets attributable to participants plus minority interest in the consolidated balance sheet. In 2008, the Group's strategy, which was unchanged from 2007, was to maintain the gearing ratio at the level not exceeding 100%.

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

	31 December 2008	31 December 2007
Long-term loans	787	52,631
Short-term loans	4,081,922	2,898,852
Total borrowings received	**4,082,709**	**2,951,483**
Cash	(670,102)	(378,093)
Net borrowing	**3,412,607**	**2,573,390**
Equity	2,099,216	-
Net assets attributable to participants	-	1,756,562
Minority interest	663,197	567,953
Total capital	**2,762,413**	**2,324,515**
Gearing ratio	**124%**	**111%**

Fair value of financial instruments. The carrying amount of cash and cash equivalents, accounts receivable and payable, and that of short-term promissory notes receivable and payable and short-term borrowings and originated loans in the consolidated balance sheet is approximately equal to their fair value as such financial instruments are short-term.

The carrying amount of long-term and short-term borrowings payable in the consolidated balance sheet is approximately equal to their fair value as the interest rate on such instruments is almost equal to market interest rates on similar investments.

(in thousands of Russian Roubles, unless otherwise stated)

36 Events After the Balance Sheet Date

Investments in associates

In February 2009 the Group ceased its participation in associate Vodokanalproektirovanie LLC by return of previously contributed property.

Acquisitions of non-controlling interest in subsidiaries

Subsequent to the balance sheet date, the Group acquired non-controlling interest in the following subsidiaries:

Company name	Interest acquired, %	Cost, RR	Date of acquisition	Notes
Sibkomplektmontazhnaladka Trust OJSC	1.44%	1,900	January 2009	Paid in cash
Tomskgazstroy OJSC	0.21%	640	February 2009	Paid in cash
Nizhnevartovskremservice CJSC	0,01%	24	February 2009	Paid in cash
Livnynasos OJSC	13%	62,086	March 2009	Paid in cash

As a result of the above mentioned transactions, the Group's interest in Livnynasos OJSC increased from 87% as at 31 December 2008 to 100% by the end of March 2009.

Borrowings. Subsequent to the balance sheet date the Group's subsidiaries received short-term loans in the amount of RR 42,584 and long-term loans in the amount of RR 1,880,000 from five banks. These loans are secured by the Group guarantees. The short-team loans mature from February 2009 to April 2010 and bear the interest rates of 20-23%. Long-term loans bear interest rates of 18.5-20.65% and payable from February 2012 to April 2014.

Long-term loans are secured by 696,826 ordinary shares of total 2,787,300 ordinary shares and 172,324 preference shares of total 689,291 preference shares of Neftemash OJSC.