PJSC EMAlliance

Consolidated financial statements
prepared in accordance with IFRS
for the year ended 31 December 2010
together with Independent Auditor's Report

Contents

Independent Auditor’s Report

To the Shareholders and the Board of Directors of PJSC EMAlliance

We have audited the accompanying consolidated financial statements of PJSC EMAlliance and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PJSC EMAlliance and its subsidiaries as at 31 December 2010, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

V. Poguliaev

Audit Engagement Partner

08 April 2011

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Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2010

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

The management is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Group as at 31 December 2010, the results of its operations, cash flows and changes in equity for the year ended 31 December 2010 in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board.

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

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

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

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

The consolidated financial statements for the year ended 31 December 2010 were approved on 08 April 2011 by the management of the Group:

Levan Dzigua
General Director

PJSC EMAlliance

08 April 2011

Mikhail Belov
Vice president of finance

EMAlliance
Consolidated statement of financial position at 31 December 2010
(in thousands of Russian Roubles)

	Notes	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	7	1,882,754	1,560,851
Intangible assets	7	81,066	46,762
Deferred tax assets	24	37,401	120,966
Other financial assets	8	16,078	11,878
VAT receivable	11	913	403,184
Non-current trade accounts receivable	9	255,898	222,239
Prepayments	9	189	291,541
		2,274,300	**2,657,420**
Current assets			
Inventories	10	887,551	773,165
Taxes receivable	11	2,217,743	1,780,790
Trade and other accounts receivable	9	3,449,666	1,797,883
Prepayments	9	1,293,594	2,984,289
Amounts due from customers for contract work	12	7,961,923	5,901,436
Other financial assets	8	13,175	3,725
Cash and cash equivalents	13	414,336	616,379
		16,237,987	**13,857,667**
Total assets		**18,512,287**	**16,515,087**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	17	1,601,000	1,601,000
Retained earnings		(3,102,930)	(3,484,760)
		(1,501,930)	**(1,883,760)**
Non-controlling interest		655,174	636,176
Total equity		**(846,756)**	**(1,247,584)**
Non-current liabilities			
Long-term borrowings	14	4,010,697	2,920,829
Long-term advances received	15	5,950	2,276,988
Employees benefit liability	16	148,091	139,292
		4,164,738	**5,337,110**
Current liabilities			
Trade and other accounts payable	15	1,084,381	1,524,766
Short-term advances received	15	10,853,240	9,728,638
Taxes payable	11	400,226	59,471
Short-term borrowings	14	2,643,770	975,967
Accrued liabilities	15	127,424	84,891
Dividends payable	15	9,090	51,828
Provisions	31	76,173	-
		15,194,304	**12,425,562**
Total liabilities		**19,359,042**	**17,762,671**
Total equity and liabilities		**18,512,287**	**16,515,087**

Levan Dzigua
General Director
08 April 2011

Mikhail Belov
Vice president of finance

Notes on pages 9 to 53 form an integral part of these consolidated financial statements

EMAlliance
Consolidated statement of comprehensive income
for the year ended 31 December 2010
(in thousands of Russian Roubles, unless otherwise stated)

	Notes	2010	2009
Revenue	18	**13,754,269**	**9,593,100**
Cost of sales	19	(9,976,178)	(6,908,474)
Increase in provision on losses under construction contracts	12	(29,226)	(15,151)
Gross profit		**3,748,865**	**2,669,475**
Selling and distribution expenses	20	(254,071)	(169,894)
General and administrative expenses	21	(1,379,286)	(1,419,424)
Other operating expenses, net	22	(443,881)	(161,166)
Foreign exchange loss, net		(2,229)	(9,920)
Finance cost, net	23	(779,975)	(361,125)
Profit before taxation		**889,424**	**547,946**
Income tax expense	24	(369,171)	(193,156)
Net profit for the period		**520,253**	**354,790**
Other comprehensive loss			
Foreign currency translation differences		(61)	-
Total comprehensive income		**520,192**	**354,790**
Attributable to:			
Equity holders of the parent		516,370	316,271
Non-controlling interests		3,822	38,518
		520,192	**354,790**
Basic earnings per share (in RUR)	17	0.323	0.198

Levan Dzigua
General Director
08 April 2011

Mikhail Belov
Vice president of finance

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EMAlliance

Consolidated statement of cash flows for the year ended 31 December 2010

(in thousands of Russian Roubles)

	2010	2009
OPERATING ACTIVITIES		
Net profit for the year	520,253	354,790
Adjustments for:		
Depreciation and amortisation	247,242	299,226
Changes in allowance for inventories	(1,831)	(65,906)
Increase in provision on losses under construction	29,226	15,151
Changes in allowance for accounts receivable	(28,573)	(6,662)
Foreign exchange difference, net	2,229	9,920
Accounts payable written-off	(4,127)	(8,661)
Loss on disposal of property, plant and equipment	18,952	61,779
Interest expense	798,035	474,321
Interest income	(38,103)	(134,679)
(Gain)/loss from initial recognition of financial instruments at fair value	(3,228)	35,388
Gain on sales of on investments held to maturity	-	(43,980)
Income tax expense	369,171	193,156
Operating profit before changes in working capital	**1,909,246**	**1,183,843**
(Increase)/decrease in inventories	(107,713)	100,539
Increase in trade and other receivables	(1,814,276)	(4,451,499)
Decrease in trade and other payables	(1,118,016)	(51,848)
Cash flows used in operations before income taxes and interest paid	**(1,130,760)**	**(3,218,964)**
Income tax paid	(168,400)	(81,605)
Interest paid	(864,115)	(315,931)
Net cash flows used in operating activities	**(2,163,275)**	**(3,616,500)**
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(317,824)	(222,431)
Proceeds from disposal of property, plant and equipment	6,885	3,038
Proceeds from disposal of promissory notes	-	79,074
Acquisition of non-controlling interest	(33,729)	(42,593)
Purchase of intangible assets	(78,145)	(59,224)
Proceeds from sale of non-controlling interest	-	29,233
Net change in loans given	(16,240)	(4,639)
Interest received	20,813	43,705
Net cash flows used in investing activities	**(418,241)**	**(173,837)**
FINANCING ACTIVITIES		
Proceeds from shares issue	-	251
Repayment of finance lease	(64,428)	(15,568)
Proceeds from borrowings	10,894,985	4,667,021
Repayment of borrowings	(8,294,580)	(3,918,146)
Dividends paid	(162,021)	(142,517)
Net cash flows generated from financing activities	**2,373,955**	**591,041**
Effect of exchange rate fluctuations on cash and cash equivalents	5,517	75,730
Net decrease in cash and cash equivalents	**(202,043)**	**(3,123,567)**
Cash and cash equivalents at beginning of year	616,379	3,739,946
Cash and cash equivalents at end of year	**414,336**	**616,379**

Levan Dzigua
General Director
08 April 2011

Mikhail Belov
Vice president of finance

Notes on pages 9 to 53 form an integral part of these consolidated financial statements.

EMAlliance

Consolidated statement of changes in equity for the year ended 31 December 2010

(in thousands of Russian Roubles)

	Attributable to equity holders of the parent			Non-controlling interest	Total equity
	Share capital	Retained earnings	Total		
Balance at 31 December 2008	**1,601,000**	**(3,614,381)**	**(2,013,381)**	**617,769**	**(1,395,612)**
Comprehensive income			-		-
Profit for the year	-	316,271	316,271	38,518	354,790
Total comprehensive income	-	316,271	316,271	38,518	354,790
Transactions with owners					
Acquisition of non-controlling interests	-	(28,346)	(28,346)	(11,862)	(40,208)
Dividends on preference shares of subsidiaries for 2008	-	(29,533)	(29,533)	(8,249)	(37,782)
Dividends on ordinary shares of the parent for 2008	-	(128,771)	(128,771)	-	(128,771)
Total transactions with owners	-	(186,650)	(186,650)	(20,111)	(206,761)
Balance at 31 December 2009	**1,601,000**	**(3,484,760)**	**(1,883,760)**	**636,176**	**(1,247,584)**
Comprehensive income					
Profit for the year	-	516,431	516,431	3,822	520,253
Effect of translation to presentation currency	-	(61)	(61)	-	(61)
Total comprehensive income	-	516,370	516,370	3,822	520,192
Transactions with owners					
Acquisition of non-controlling interests	-	(4,282)	(4,282)	186	(4,096)
Contribution from the shareholder of the special purpose entity	-	-	-	14,990	14,990
Dividends on preference shares of subsidiaries for 2009	-	(15,258)	(15,258)	-	(15,258)
Dividends on ordinary shares of the parent for 2009	-	(50,000)	(50,000)	-	(50,000)
Interim dividends on ordinary shares of the parent for 2010	-	(65,000)	(65,000)	-	(65,000)
Total transactions with owners	-	(134,540)	(134,540)	15,176	(119,364)
Balance at 31 December 2010	**1,601,000**	**(3,102,930)**	**(1,501,930)**	**655,174**	**(846,756)**

Levan Dzigua
General Director
08 April 2011

Mikhail Belov
Vice president of finance

Notes on pages 9 to 53 form an integral part of these consolidated financial statements.

1. Corporate information

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

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

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

EMAlliance provides a wide range of engineering and production:

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

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

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

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

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

The parent company of the Company is Auburn Investments Ltd. incorporated in Cyprus. Auburn Investments Ltd owns 100% of ordinary shares of the Company as at 31 December 2010 (31 December 2009: 100%). Group is ultimately controlled by Mr. Evgeny Tugolukov.

2. Basis of preparation of the financial statements

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) effective as at 1 January 2010 including earlier accepted International Financial Reporting Standards and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

Basis of accounting

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

New accounting pronouncements

(a) New/Revised Standards and Interpretations Adopted in 2010
In the current year, the Group has adopted all new International Financial Reporting Standards ("IFRS") and interpretations issued by International Financial Reporting Interpretation Committee ("IFRIC") that are mandatory for adoption in the annual periods beginning on or after 1 January 2010.

(i) Amendment to IFRS 2 "Share-Based Payment"
The amendment to IFRS 2 clarified the scope and the accounting for group cash-settled share-based payment transactions. This amendment did not have any impact on the financial position or performance of the Group.

(ii) IFRS 3 "Business Combinations" (Revised)
The standard introduces changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. The revised standard has been adopted by the Group together with the revised IAS 27 "Consolidated and Separate Financial Statements". The adoption of this amendment did not have any significant impact on the financial position or performance of the Group.

(iii) IFRS 27 "Consolidated and Separate Financial Statements"
IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010. The change in accounting policy was applied prospectively and had no material impact on the Group's consolidated financial statements.

(iv) IAS 39 "Financial Instruments: Recognition and Measurement – Eligible Hedged Items"
The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

(v) IFRIC 17 Distribution of Non-cash Assets to Owners
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either the financial position, or performance of the Group.

Improvements to IFRSs issued in April 2009:

(i) IFRS 8 "Operating Segments"
The amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 5.

(ii) IAS 36 "Impairment of Assets"
The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"

IAS 7 "Statement of Cash Flows"

IAS 1 "Presentation of Financial Statements"

IAS 17 "Leases"

IAS 34 "Interim Financial Reporting"

IAS 38 "Intangible Assets"

IAS 39 "Financial Instruments: Recognition and Measurement"

IFRIC 9 "Reassessment of Embedded Derivatives"

IFRIC 16 "Hedge of a Net Investment in a Foreign Operation"

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

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

Standards and Interpretations	**Effective for annual periods beginning on or after**
IAS 24 (revised) "Related Party Disclosures"	January 1, 2011
IAS 32 Financial Instruments: "Presentation – Classification of Rights Issues" (Amendment)	February 1, 2010
IFRS 9 "Financial Instruments: Classification and Measurement"	January 1, 2013
IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"	July 1, 2010
Amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirement"	January 1, 2011

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

3. Summary of significant accounting policies

3.1 Principles of consolidation

Subsidiaries

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

Acquisition and disposal of non-controlling interest

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

3.2 Investments and other financial assets

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

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

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

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

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

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

3.3 Cash and cash equivalents

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

3.4 Trade and other receivables

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

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

(i) If the maturity of individual receivable under the contract at the balance sheet date is more than 6 months, such receivable is fully impaired.

(ii) If the maturity of individual receivable under the contract at the balance sheet date is more than 3 months, but less than 6 months, such receivable is impaired by 50%.

(iii) If the maturity of individual receivable under the contract at the balance sheet date is less than 3 months, the receivable is considered not to be impaired.

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

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

(ii) If the maturity of individual receivable under the contract is more than 6 months at the date of issue the financial statements, such receivable is fully impaired. Also if at the issue

date the maturity of individual receivable under the contract is more than 3 months, but less than 6 months, such receivable is impaired by 50%.

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

3.5 Value added tax

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

3.6 Inventories

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

3.7 Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred if the recognition criteria are met. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

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

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

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

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

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

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

3.8 Intangible assets

Goodwill

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

Goodwill is not amortised and is measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment at least annually and whenever there are indications that goodwill may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Intangible assets (other than goodwill)

All other intangible assets of the Group have definite useful lives and primarily include patents and licenses (including software licenses) acquired by the Group and initially recognized at cost.

Subsequent to initial recognition intangible assets are stated at acquisition cost less accumulated amortisation and accumulated impairment loss. Production patents and licenses are amortised using the straight-line method over the term of the license or patent, which range from 2 to 5 years. Software licenses are amortised using a straight-line method based on the estimated useful lives of 1-3 years.

Amortisation charge for production licenses is included in cost of sales in the consolidated income statement. Amortisation charge for software licenses is included in cost of sales and administrative expenses in the consolidated income statement.

Intangible assets are tested for impairment whenever there is an indication that the intangible asset may be impaired.

3.9 Borrowings

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

3.10 Deferred income taxes

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.
Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.11 Leases

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

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

Depreciable leased assets are consistent with that for owned, and depreciation recognised is calculated in accordance with IAS 16 property, Plant and Equipment. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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

3.12 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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

3.13 Equity

Share capital

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

Dividends

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

3.14 Revenue recognition

Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.
Where the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.
Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed.

Long-term construction contracts

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

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

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

The outcome of a construction contract is deemed to be estimated reliably when all the following conditions are satisfied:
- total contract revenue can be measured reliably;
- it is probable that economic benefits associated with the contract will flow to the Group;
- both the contract costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably; and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

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

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

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

3.15 Employee benefits

Pension costs

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

State pension scheme

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

3.16 Foreign currency transactions

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

4. Significant accounting judgements and estimates

4.1 Judgements

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

Accounting for long-term construction contracts

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

Classification of lease agreements

Lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. If the lease term is for longer than 75 percent of the economic life of the asset, or that at the inception of the lease the present value of the minimum lease payments amount to at least 90 percent of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

4.2 Estimation of uncertainty

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

Useful life of property, plant and equipment

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

Impairment of property, plant and equipment

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

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

Allowance for doubtful accounts

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. More details are provided in Note 9.

Pension obligations

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

Litigations

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

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group’s entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group’s entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods. As of December 31, 2010 the management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 24.

Deferred tax assets

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

4.3 Going concern

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. Consolidated financial statements indicate that the Group's total liabilities exceeded its total assets by RUR 846,756k as at 31 December 2010. These consolidated financial statements have been prepared on a going concern basis as management believes that cash from operations and rising of long-term borrowings will enable the Group to meet its short-term obligations. Additionally, the shareholders have undertaken to provide the Group with financial and other support necessary to allow the Group to continue its activities.

5. Segment information

The Group manufactures energy generating equipment, buys energy generating equipment from subcontractors and sells both types of energy equipment to final customers or intermediaries under the same contract within the framework of turn-key projects.
The Group identifies the following operating segments:

- EPC (Engineering, Procurement and Construction) contracts;
- Engineering and energy equipment supply;
- Production of energy equipment. In the event if the equipment produced by the one of the Group's entity is involved in forming of the other segment's revenue, its value recognised as an inter-segment turnover.

Segment assets and liabilities of the Group at 31 December 2010 are as follows:

'000 RUR	EPC projects	Engineering and energy equipment supply	Production of the energy equipment	Intersegment	Total
Segment assets	4,383,967	8,787,907	8,664,440	(6,006,682)	15,829,632
Deferred tax assets					37,401
Taxes receivable					2,217,743
Investments held-to-maturity					13,175
Cash and cash equivalents					414,336
Group assets					**18,512,287**
Segment liabilities	4,651,037	10,939,040	2,635,692	(6,006,682)	12,219,086
Long-term borrowings					4,010,697
Taxes payable					400,226
Short-term borrowings					2,643,770
Dividends payable					9,090
Provisions					76,173
Group liabilities					**19,359,042**
Additions to non-current assets	6,775	108,054	514,712	-	629,542

Segment assets and liabilities of the Group at 31 December 2009 is as follows:

'000 RUR	EPC projects	Engineering and energy equipment supply	Production of the energy equipment	Intersegment	Total
Segment assets	3,411,991	7,840,504	5,014,207	(2,273,475)	13,993,227
Deferred tax assets					120,966
Taxes receivable					1,780,790
Investments held-to-maturity					3,725
Cash and cash equivalents					616,379
Group assets					**16,515,087**
Segment liabilities	4,044,517	10,324,792	1,658,741	(2,273,475)	13,754,575
Long-term borrowings					2,920,829
Taxes payable					59,471
Short-term borrowings					975,967
Dividends payable					51,828
Group liabilities					**17,762,670**
Additions to non-current assets	3,388	70,999	220,785	-	295,172

The Group's operating segment information for year ended 31 December 2010 is as follows:

'000 RUR	EPC projects	Engineering and energy equipment supply	Production of the energy equipment	Adjustments and eliminations	Total
External customers	1,111,999	12,333,744	308,526	-	13,754,269
Inter-segment	-	-	4,691,940	(4,691,940)	-
Total revenue	**1,111,999**	**12,333,744**	**5,000,466**	**(4,691,940)**	**13,754,269**
Finance income	-	5,512	32,591	-	38,103
Foreign exchange gain/(loss), net	-	(7,158)	4,929	-	(2,229)
Depreciation	(2,708)	(20,147)	(180,437)	-	(203,292)
Amortisation	-	(28,680)	(15,271)	-	(43,950)
Changes in allowance for accounts receivable and inventories	-	(17,078)	47,482	-	30,404
Segment profit/(loss)	**(69,752)**	**1,234,490**	**542,764**	**-**	**1,707,502**
Finance costs					(818,078)
Group profit before tax					**889,424**

The Group's operating segment information for year ended 31 December 2009 is as follows:

'000 RUR	EPC projects	Engineering and energy equipment supply	Production of the energy equipment	Adjustments and eliminations	Total
External customers	1,498,411	6,060,669	2,034,019	-	9,593,100
Inter-segment	-	-	2,524,913	(2,524,913)	-
Total revenue	**1,498,411**	**6,060,669**	**4,558,933**	**(2,524,913)**	**9,593,100**
Finance income	-	134,152	44,507	-	178,659
Foreign exchange gain/(loss), net	-	28,367	(38,287)	-	(9,920)
Depreciation	(3,397)	(25,871)	(207,627)	-	(236,895)
Amortisation	-	(47,685)	(14,646)	-	(62,332)
Changes in allowance for accounts receivable and inventories	-	(1,992)	74,560	-	72,568
Segment profit	**226,886**	**428,642**	**432,201**	**-**	**1,087,729**
Finance costs					(539,784)
Group profit before tax					**547,946**

6. Balances and transactions with related parties

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with the related parties.

Related parties with whom the Company entered into significant transactions or had significant balances outstanding at 31 December 2010 and 2009 are detailed below.

Balances with related parties:

'000 RUR	**31 December 2010**	**31 December 2009**
Parent company		
Trade and other receivables	9,500	12,480
Trade and other accounts payable	-	20,524
Interest-bearing loans and borrowings	-	317,189

Finance costs include interest expenses on loans received from the parent company for the year ended 31 December 2010 in amount of RUR 40,890k (2009: RUR 76,552k).

Compensation to key management personnel

The key management personnel comprise members of the Management Board and Board of Directors of the Group, totalling 34 persons as at 31 December 2010 (2009: 30). Total compensation to the key management personnel included in administrative expenses in the income statement amounted to RUR 332,533k for the year ended 31 December 2010 (2009: RUR 21,258k). Compensation to the key management personnel consists of the following:

'000 RUR	**2010**	**2009**
Salaries and bonuses	327,406	16,105
Termination benefits	1,321	2,195
Other benefits	3,806	2,958
	332,533	21,258

7. Property, plant and equipment and intangible assets

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

’000 RUR	Buildings and constructions	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost/Deemed cost					
At 1 January 2009	1,062,026	2,028,186	119,027	51,396	3,260,635
Additions	-	-	-	235,451	235,451
Disposals	(35,947)	(105,894)	(2,079)	(3,872)	(147,792)
Transfers	16,147	100,632	23,770	(140,549)	-
At 31 December 2009	1,042,226	2,022,924	140,718	142,426	3,348,294
Additions	-	-	-	551,287	551,287
Disposals	(7,245)	(38,262)	(3,055)	-	(48,563)
Transfers	33,104	382,863	120,714	(536,682)	-
At 31 December 2010	1,068,086	2,367,525	258,376	157,031	3,851,018
Depreciation and impairment losses					
At 1 January 2009	(630,337)	(972,722)	(34,554)	-	(1,637,613
Depreciation charge	(48,291)	(177,727)	(10,878)	-	(236,895)
Disposals	20,128	66,138	800	-	87,066
At 31 December 2009	(658,500)	(1,084,311)	(44,632)	-	(1,787,443
Depreciation charge	(32,361)	(153,984)	(16,946)	-	(203,292)
Disposals	1,782	19,400	1,288	-	22,470
At 31 December 2010	(689,078)	(1,218,895)	(60,290)	-	(1,968,264
Net book value					
At 1 January 2009	431,689	1,055,464	84,473	51,396	1,623,022
At 31 December 2009	383,727	938,613	96,086	142,426	1,560,851
At 31 December 2010	379,007	1,148,630	198,086	157,031	1,882,754

As at 31 December 2010 the cost of fully depreciated property, plant and equipment was RUR 755,480k (2009: RUR 858,639k).

Depreciation charge included in the consolidated income statement is as follows:

	2010 ’000 RUR	2009 ’000 RUR
Cost of sales	150,410	165,095
Selling and distribution costs	1,303	1,530
Administration expenses	49,296	70,270
Property let	2,282	-
Total	**203,292**	**236,895**

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

	2010 '000 RUR	2009 '000 RUR
Pledges to secure bank loans	957,044	876,987
Pledges to secure guarantees	-	1,148
	957,044	878,135

Finance leases

The carrying amount of plant and equipment held under finance leases at 31 December 2010 was RUR 256,173k (2009: RUR 40,832k, 1 January 2009: RUR 53,858). Additions during the year include RUR 232,990k (2009: nil) of plant and equipment under finance leases.

Intangible assets

Intangible assets and related accumulated amortisation consist of the following:

'000 RUR	Goodwill	Software	Patents and licences	Other Intangible assets	Total
Cost					
At 1 January 2009	2,318	8,470	38,420	1,207	50,414
Additions	-	54,980	4,518	223	59,721
At 31 December 2009	2,318	63,450	42,938	1,430	110,136
Additions	-	62,272	15,951	32	78,254
At 31 December 2010	2,318	125,722	58,889	1,462	188,390
Amortisation					
At 1 January 2009	-	-	(923)	(120)	(1,042)
Amortisation	-	(57,492)	(4,563)	(276)	(62,331)
At 31 December 2009	-	(57,492)	(5,486)	(395)	(63,373)
Amortisation	-	(37,020)	(6,631)	(298)	(43,950)
At 31 December 2010	-	(94,513)	(12,117)	(694)	(107,324)
Net book value					
At 1 January 2009	2,318	8,470	37,497	1,087	49,372
At 31 December 2009	2,318	5,958	37,452	1,035	46,762
At 31 December 2010	2,318	31,209	46,772	768	81,066

Amortisation charge included in the consolidated income statement is as follows:

	2010 '000 RUR	2009 '000 RUR
Cost of sales	10,577	2,151
Selling and distribution costs	90	161
Administration expenses	33,283	60,019
Total	**43,950**	**62,331**

8. Other financial assets

	31 December 2010 ’000 RUR	31 December 2009 ’000 RUR
Non-current		
Available-for-sale investments	1,608	1,641
Loans issued to employees	14,470	10,237
	16,078	11,878
Current		
Loans issued – 3rd parties	1,200	183
Loans issued to employees	11,975	3,542
	13,175	3,725
	29,253	15,603

Loans issued bear the interest rates from 5% to 15% per annum.

9. Trade and other receivables, prepayments

	31 December 2010 ’000 RUR	31 December 2009 ’000 RUR
Non-current accounts receivable and prepayments		
Prepayments	189	291,541
Non-current trade accounts receivables - 3rd parties	308,480	274,420
Allowance for accounts receivable	(52,582)	(52,181)
	256,087	513,780
Current accounts receivable		
Trade accounts receivable – 3rd parties	3,249,448	1,593,407
Other receivables – 3rd parties	272,298	424,123
Other receivables - related parties	9,500	12,480
Prepayments – 3rd parties	1,319,387	3,033,510
	4,850,633	5,063,520
Allowance for accounts receivable	(81,580)	(232,127)
Allowance for prepayments	(25,793)	(49,220)
	4,743,260	4,782,172
	4,999,347	5,295,953

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

As at 31 December 2011 and 31 December 2010 ageing analysis of the trade and other receivables is as follows:

Ageing from the due date	**Gross book value 31 December**		**Provision 31 December**		**Net book value 31 December**	
'000 RUR	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Trade accounts receivable						
Neither past due nor impaired	1,951,949	717,631	-	-	1,951,949	717,631
Past due:						
Up to 30 days	165,798	165,207	-	-	165,798	165,207
From 1 to 3 months	604,518	270,756	-	(9,823)	604,518	260,934
From 3 to 6 months	12,133	156,497	(1,790)	(1,166)	10,342	155,332
From 6 to 12 months	70,101	108,988	(805)	(2,916)	69,296	106,071
More than 1 year	444,950	174,327	(73,678)	(72,848)	371,271	101,479
	3,249,448	1,593,407	(76,273)	(86,753)	3,173,175	1,506,654
Other receivables						
Neither past due nor impaired	265,316	274,354	-	-	265,316	274,354
Past due:						
Up to 30 days	94	815	-	-	94	815
From 1 to 3 months	9	417	-	(184)	9	233
From 3 to 6 months	211	-	-	-	211	-
From 6 to 12 months	1,361	60	-	(26)	1,361	35
More than 1 year	5,307	148,477	(5,307)	(145,164)	-	3,312
	272,298	424,123	(5,307)	(145,375)	266,991	278,749
Other receivables-related parties						
Neither past due nor impaired	9,500	12,480	-	-	9,500	12,480
	9,500	12,480	-	-	9,500	12,480
	3,531,246	**2,030,010**	**(81,580)**	**(232,127)**	**3,449,666**	**1,797,883**

At 31 December 2010, trade accounts receivable include a debt of RUR 375,673k (2009: RUR 372,857k) from the customer "Alstom" for the equipment. At the date of issuing of these consolidated financial statements, there is no certainty regarding the timing and amount of debt collection caused by disagreements with the customer. The receivable was not provided for because the Group's management cannot estimate the amount and risk of impairment.

As of 31 December 2010 accounts receivable include overdue receivables in the amount of RUR 371,408k (2009: RUR 638,109k) related to large construction contract which is postponed and other contracts which are overdue. The management is in process of agreeing the future terms of this large contract completion and believes that the contract will be continued since August 2011 and successfully completed. Therefore, the above mentioned accounts receivable are not provided for. See below the ageing of these accounts receivable.

	31 December 2010	**31 December 2009**
	000' RUR	**000' RUR**
Past due:		
Up to 30 days	495	118,837
From 1 to 3 months	-	251,987
From 3 to 6 months	-	152,040
From 6 to 12 months	-	67,779
More than 1 year	370,914	47,465
	371,408	**638,109**

As at 31 December 2011 and 31 December 2010 ageing analysis of the prepayments is as follows:

Ageing from the due date	**Gross book value**		**Provision**		**Net book value**	
	31 December		**31 December**		**31 December**	
'000 RUR	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Prepayments						
Neither past due nor impaired	1,181,177	2,888,656	-	(176)	1,181,177	2,888,480
Past due:						
Up to 30 days	66,068	64,191	-	(5)	66,068	64,186
From 1 to 3 months	42,679	31,046	(56)	(2,761)	42,623	28,285
From 3 to 6 months	7,420	5,687	(3,694)	(3,736)	3,726	1,951
From 6 to 12 months	2,330	6,604	(2,330)	(5,509)	-	1,096
More than 1 year	19,714	37,325	(19,714)	(37,034)	-	291
	1,319,387	3,033,510	(25,793)	(49,220)	1,293,594	2,984,289

10. Inventories

Inventories consist of the following:

	31 December 2010 '000 RUR	31 December 2009 '000 RUR
Raw materials and spare parts	930,059	831,123
Work in progress	40,512	21,429
Finished goods	140,665	139,089
Other	4,842	-
	1,116,078	991,640
Allowance to reduce the carrying amount to net realisable value	(228,527)	(218,476)
	887,551	773,165

Bank borrowings (see note 14) are secured by inventories for the value determined in accordance with national accounting standards as follows:

	31 December 2010 '000 RUR	31 December 2009 '000 RUR
Pledges to secure bank loans	984,534	1,485,963
Pledges to secure guarantees	-	209,277
	984,534	1,695,240

In accordance with IAS 11 and the stage of completion method for the long-term contracts, the amounts RUR 984,534k (2009: RUR 1,595,211k) of the above mentioned inventories cost are already included in cost of sales and retained earnings of prior years.

11. Taxes receivable and payable

	31 December 2010 '000 RUR	31 December 2009 '000 RUR
Taxes receivable - current		
Input VAT	127,660	134,547
Allowance for input VAT	(2,351)	(8,966)
VAT receivable*	2,051,434	1,567,370
Corporate income tax receivable	27,181	79,645
Other taxes receivable	13,819	8,194
	2,217,743	1,780,790
Taxes receivable - non-current		
VAT receivable*	913	403,184
	913	403,184
Taxes payable		
VAT payable	259,497	12,338
Corporate income tax	72,964	1,749
Employees income tax	23,262	12,536
Property tax	5,880	4,074
Social taxes payable	37,978	28,279
Other taxes payable	645	495
	400,226	59,471

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

12. Construction contracts

(a) Contracts in progress at the balance sheet date

	31 December 2010 '000 RUR	31 December 2009 '000 RUR
Contract costs incurred to date	21,507,023	12,995,040
Recognised profits less recognised losses to date	2,852,423	656,286
	24,359,446	13,651,326
Less progress billings to date	(16,397,523)	(7,749,890)
Amounts due from customers for contract work	7,961,923	5,901,436

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

	31 December 2010 '000 RUR	31 December 2009 '000 RUR
Advances received from customers for contract work	10,859,190	12,005,626
Retentions held by customers for contract work	255,898	222,239

(c) Contract revenues and costs for the period

	2010 '000 RUR	2009 '000 RUR
Contract revenue for the period	13,633,375	9,502,354
Contract costs for the period	(9,908,689)	(6,851,028)
Contract gross profit for the period	**3,724,686**	**2,651,326**

(d) Increase in provision on losses under construction contracts

	2010 '000 RUR	2009 '000 RUR
Expected total loss on contract at January 1	(1,378,322)	(1,363,171)
Expected total loss on contract at December 31	(1,407,548)	(1,378,322)
Increase in provision on losses	(29,226)	(15,151)

13. Cash and cash equivalents

	31 December 2010 '000 RUR	31 December 2009 '000 RUR
Petty cash	115	105
Current accounts in RUR	412,412	558,309
Current accounts in foreign currencies	1,809	47,285
Letter of credit	-	10,681
	414,336	616,379

14. Borrowings

	31 December 2010 '000 RUR	31 December 2009 '000 RUR
Non-current		
Secured bank loans	3,948,944	1,609,690
Bonds	-	993,357
Unsecured loan from related parties	-	317,189
Finance lease liability	61,753	593
	4,010,697	2,920,829
Current		
Current portion of secured bank loans	2,543,532	972,286
Current portion of finance lease liability	92,384	3,681
Bonds	7,855	-
	2,643,770	975,967

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

As at 31 December 2010 loans in amount of RUR 6,492,475k (2009: RUR 2,581,976k) are guaranteed by:

- pledge of property, plant and equipment with a carrying amount of RUR 839,957k (2009: RUR 876,987k), (see details in Notes 7),
- inventories with cost in accordance with national accounting standards of RUR 963,205k (2009: RUR 1,485,963k), (see details in Notes 10),
- trade accounts receivable of RUR 1,146,479k, subsidiary's revenue on contracts of RUR 2,390,406k,
- and by ordinary shares of the Group's subsidiary PJSC Krasny Kotelschik (25% plus 1 share).

Renewable credit line of RUR 450,000k with nil balance as at 31 December 2010 is guaranteed by pledge of property, plant and equipment with a carrying amount of RUR 117,087k and inventories with cost in accordance with national accounting standards of RUR 21,239k.

As at 31 December 2010 all Group's borrowings are denominated in Russian Roubles.

Repayment schedule of long-term borrowings is as follows:

	31 December 2010 '000 RUR	31 December 2009 '000 RUR
Due for repayment:		
Between one and two years	3,948,944	2,435,546
Between two and five years	-	484,690
	3,948,944	2,920,236

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

	2010	2009
Fixed rate RUR denominated long-term borrowings	9.70%	17.30%
Fixed rate RUR denominated short-term borrowings	8.57%	17.73%
Variable rate RUR denominated long-term borrowings	-	13.00%

Borrowings details are as follows:

Name	Currency	Final Maturity	31 December 2010	31 December 2009	Type of interest rate	Effective interest rate	
			'000 RUR	'000 RUR		2010	2009
Long-term borrowings payable to:							
Sberbank	RUR	2011	-	900,000	Variable rate	-	11.65%-13.00%
Sberbank	RUR	2012	3,948,944	484,690	Fixed rate	9.70%	15.50%
Sberbank	RUR	2011	-	200,000	Fixed rate	-	17.00%
IBSP	RUR	2011	-	25,000	Fixed rate	-	18.00%
Auburn Investments Ltd.	RUR	2011	-	317,189	Fixed rate	-	18.00%
Bonds holders	RUR	2011	-	993,357	Fixed rate	-	18.00%
Total			3,948,944	2,920,236			
Short-term borrowings payable to:							
Sberbank	RUR	2011	448,532	-	Fixed rate	9.00%	-
Globex Bank	RUR	2011	1,600,000	-	Fixed rate	8.00%	-
MDM bank	RUR	2011	495,000	-	Fixed rate	9.85%	-
Sobinbank	RUR	2011	-	-	Fixed rate	-	-
MDM bank	RUR	2010	-	460,000	Fixed rate	-	19.75%
MDM bank	RUR	2010	-	340,000	Fixed rate	-	13.75%
MDM bank	RUR	2010	-	90,000	Fixed rate	-	21.00%
Credit Bank of Moscow	RUR	2010	-	44,786	Fixed rate	-	20.50%
Bank ZENIT	RUR	2010	-	37,500	Fixed rate	-	18.00%
Bonds holders	RUR	2011	7,855	-	Fixed rate	18.00%	-
Total			2,551,387	972,286			

Finance leases

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

	31 December 2010		31 December 2009	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	'000 RUR	'000 RUR	'000 RUR	'000 RUR
Within one year	91,059	92,384	3,822	3,681
After one year but not more than five years	121,212	61,753	1,113	593
Total minimum lease payments	212,271	154,137	4,935	4,274
Less: amounts representing interest	(58,134)	-	(660)	
Present value of minimum lease payments	154,137	154,137	4,274	4,274

The amounts representing interest are based on effective interest rate of 14% (2009: 12%)

15. Trade and other payables

	31 December 2010 '000 RUR	31 December 2009 '000 RUR
Non-current trade and other payables		
Advances received from customers – 3rd parties	5,950	2,276,988
	5,950	2,276,988
Current trade and other payables		
Trade accounts payable – 3rd parties	1,049,292	1,385,298
Advances received from customers – 3rd parties	10,853,240	9,728,638
Accrued liabilities	127,424	84,891
Payroll payable	28,071	25,770
Unused vacation liability	99,353	59,121
Dividends payable on preference shares	9,090	51,828
Other payables – 3rd parties	35,089	118,944
Other payables-related parties	-	20,524
	12,074,135	11,390,123
	12,080,085	**13,667,112**

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

Guarantees issued by banks to secure advances received from customer are as follows:

Date of issue	Holder of pledge	'000 RUR	Contract num	Contract date	Maturity date	Beneficiary
06.11.2009	UCB bank	114,639	5316	25.08.2009	31.12.2010	Fortum
06.11.2009	UCB bank	308,870	5316	25.08.2009	31.03.2012	Fortum
06.11.2009	UCB bank	308,870	5316	25.08.2009	31.03.2011	Fortum
06.11.2009	UCB bank	102,957	5316	25.08.2009	31.03.2012	Fortum
21.06.2010	MDM bank	35,400	1083	31.05.2010	30.06.2011	TNPZ
21.06.2010	MDM bank	710,326	1083	23.12.2009	31.05.2012	TNPZ
13.12.2010	Raiffeisenbank	25,080	RBA/8259/GA	10.12.2010	10.07.2011	Power Machines
19.11.2010	Alfabank	411,827	5316	25.08.2009	31.01.2012	Fortum
17.03.2010	GPB (OJSC)	248,295	ОГК-000235	23.12.2009	31.07.2011	JSC “OGK-1”
		2,266,265				

As at 31 December 2010, bank guarantees of RUR 2,266,265k are secured by the trade accounts receivable of RUR 117,625k.

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

(a) Ageing analysis of trade and other payables

Ageing from the due date	**Gross book value 31 December 2010**	**2009**
Trade accounts payable – 3rd parties		
Not past due	680,015	828,380
Past due:		
Up to 30 days	297,499	167,353
From 1 to 3 months	55,236	168,621
From 3 to 6 months	10,984	162,221
From 6 to 12 months	1,582	28,047
More than 1 year	3,976	30,676
	1,049,292	1,385,298
Other payables – 3rd parties		
Not past due	34,634	118,160
Past due:		
Up to 30 days	20	320
From 1 to 3 months	67	5
From 3 to 6 months	53	-
From 6 to 12 months	14	52
More than 1 year	302	408
	35,089	118,944
Other payables-related parties		
Not past due	-	20,524
	-	20,524
	1,084,381	**1,524,766**

(b) Ageing analysis of advances received from customers

Ageing from the due date	**Gross book value 31 December 2010**	**2009**
Advances received from customers		
Not past due	10,817,504	5,703,613
Past due:		
Up to 30 days	17,168	3,022,438
From 1 to 3 months	3,896	689,676
From 3 to 6 months	672	269,244
From 6 to 12 months	493	20,500
More than 1 year	13,506	23,167
	10,853,240	9,728,638
Payroll payable		
Not past due	28,071	25,770
	28,071	25,770
Dividends payable		
Not past due	9,090	51,828
	9,090	51,828
	10,890,401	**9,806,236**

16. Employees benefit liabilities

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

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

Lump-sum benefits at retirement, pension benefits, and funeral compensations are classified as 'post-employment benefits'; jubilee benefits are classified as 'other long-term benefits', according to the classification of IAS 19.
In accordance with IAS 19 the benefit plans are classified as defined benefit plans with respect to formalized and constructive obligations. The plans are a non-funded.

The following tables summarize the components of net benefit expense recognized in the income statement for the respective plans for the years ended 31 December 2010 and 2009:

	2010 **'000 RUR**	**2009** **'000 RUR**
Current service cost	2,624	3,221
Interest cost	9,908	10,284
Past service cost	(2,495)	20,406
Net actuarial loss recognized in the period	6,918	(24,743)
	16,955	9,169

The following tables summarize the funded status and amounts recognized in the balance sheet for the respective plans as of 31 December 2010 and 2009:

	31 December 2010 **'000 RUR**	**31 December 2009** **'000 RUR**
Benefit obligation (PV per actuarial valuation)	134,617	123,323
Plan assets	-	-
	134,617	123,323
Unrecognized past service cost	13,474	15,969
Benefit liability – non-current	148,091	139,292

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

	2010 **'000 RUR**	**2009** **'000 RUR**
As at January 1	123,323	137,696
Interest cost on benefit obligation	9,908	10,284
Current service cost	2,624	3,221
Past service cost	-	4,437
Benefits paid	(8,156)	(7,572)
Actuarial losses on obligation	6,918	(24,743)
As at December 31	134,617	123,323

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

	2010	2009
Discount rate	8.00%	9.50%
Wage growth rate	7.50%	8.00%
Inflation rate	6.00%	7.00%

	2010 '000 RUR	2009 '000 RUR
Defined benefit obligation	134,617	123,323
Deficit	(134,617)	(123,323)
Experience adjustments on plan liabilities	(1,403)	(15,765)

17. Equity

The authorised number of ordinary shares is 1,601,000,000 (2009: 1,601,000,000) respectively, both with a nominal value of RUR 1 per share. All authorised shares have been issued and fully paid.

Dividends

In December 2010 the Company has accrued dividends on the ordinary shares for the year ended 31 December 2009 in amount of RUR 50,000k and for the nine months ended 30 September 2010 in amount of RUR 65,000k. The dividends are paid in full in December 2010.

In June 2010 PJSC Krasny Kotelschik has accrued dividends on it's preference shares for the year 2009 in amount of RUR 15,258k. The outstanding balance for dividends payable included in accounts payable (Note 15) relates to the dividends accrued in the years 2008 and 2009, but not paid yet as at the reporting date.

18. Sales revenue

The components of sales revenues were as follows:

	2010 '000 RUR	2009 '000 RUR
Energy generating and other equipment	13,497,898	9,390,178
Associated services	135,477	112,176
Sales of materials and goods	120,893	90,745
	13,754,269	**9,593,100**
Export sales	914,898	1,949,390
Domestic sales	12,839,370	7,643,710
	13,754,269	**9,593,100**

The table below shows the customers who provide individually more than 10% of the Group's sales revenue for year ended 31 December 2010.

'000 RUR	EPC projects	Engineering and energy equipment supply	Production of the energy equipment	Total
OGC-6	-	5,358,035	-	5,358,035
Tehnopromeksport	-	2,805,766	61,241	2,867,006
Mosenergo	1,044,989	98,000	-	1,142,989
Revenue from other customers	67,010	4,071,943	247,285	4,386,239
Total revenue per external customer	**1,111,999**	**12,333,744**	**308,526**	**13,754,269**

The table below shows the customers who provide individually more than 10% of the Group's sales revenue for year ended 31 December 2009.

'000 RUR	EPC projects	Engineering and energy equipment supply	Production of the energy equipment	Total
Tehnopromeksport	-	947,858	1,405,682	2,353,540
OGC-6	-	1,942,431	-	1,942,431
Mosenergo	1,417,824	-	-	1,417,824
Revenue from other customers	80,587	3,170,380	628,337	3,879,305
Total revenue from external customer	**1,498,411**	**6,060,669**	**2,034,019**	**9,593,100**

The table below shows the sales revenues by country:

	2010 '000 RUR	2009 '000 RUR
Revenues from external customers		
Russia	12,839,370	7,758,399
CIS	758,151	438,796
Southeast Asia	128,482	1,337,293
EU countries	15,014	53,093
Near East/Africa	10,341	5,519
Central & South America	2,910	-
	13,754,269	**9,593,100**

19. Cost of sales

The components of cost of sales were as follows:

	2010 '000 RUR	2009 '000 RUR
Materials	2,414,225	2,351,413
Subcontract products and works	5,878,866	3,195,240
Production staff costs	1,021,399	708,833
Energy	276,795	218,824
Utilities	18,255	14,139
Depreciation and amortisation	160,987	167,247
Depreciation	*150,410*	*165,095*
Amortisation	*10,577*	*2,151*
Repair services	85,516	26,007
Business trips	20,290	19,296
Taxes	46,129	35,693
Professional services	175,279	163,350
Capitalised expenses	(84,931)	(39,083)
Change in work-in-progress (WIP)	(32,597)	38,245
Change in finished goods (FG)	(2,204)	75,175
Inventory adjustments	(1,831)	(65,906)
Stock count results	(11,883)	(13,397)
Change in impairment allowance for raw materials	(1,599)	(22,701)
Change in impairment allowance for WIP	4,299	(10,415)
Change in impairment allowance for FG	7,352	(19,393)
	9,976,178	**6,908,474**

20. Selling and distribution costs

Selling and distribution costs comprise:

	2010 '000 RUR	2009 '000 RUR
Staff expenses	56,530	29,138
Transportation of finished goods	183,819	134,034
Materials	2,944	2,021
Advertising	6,999	3,123
Depreciation and amortisation	1,393	1,692
Depreciation	*1,303*	*1,530*
Amortisation	*90*	*161*
Business trips expenses	2,937	762
Agent's services	8,462	606
Property tax	37	19
Decrease in allowance for doubtful debts	(28,573)	(6,662)
Professional services	19,523	5,162
	254,071	**169,894**

21. General and administrative expenses

General and administrative expenses comprise:

	2010 ’000 RUR	2009 ’000 RUR
Administration staff expenses	988,058	852,116
Energy	16,334	16,514
Utilities	11,326	5,928
Depreciation and amortisation	82,580	130,289
Depreciation	*49,296*	*70,270*
Amortisation	*33,283*	*60,019*
Telecom	13,753	7,637
Business trips expenses	59,902	35,707
Insurance	37,624	42,307
Materials	41,390	38,426
Taxes	10,964	11,554
Professional services	117,355	278,945
	1,379,286	**1,419,424**

22. Other operating income and expenses

The components of other expenses were as follows

	2010 ’000 RUR	2009 ’000 RUR
Other operating income		
(Loss)/gain on property rent, net	4,431	(5,467)
including depreciation	*(2,282)*	*(1,029)*
Accounts payable written-off	4,127	8,661
Other income	-	16,805
Total other operating income	8,558	19,999
Other operating expenses		
Loss on social business units	(16,467)	(29,595)
Charity and other social expenses	(31,482)	(38,136)
Unrecovered VAT	(91,530)	(33,214)
Loss on disposal of property, plant and equipment, net	(18,952)	(61,779)
Fines and penalties	(280,230)	(4,590)
Other expenses	(13,777)	(13,852)
Total operating expenses	(452,438)	(181,165)
Other operating expenses, net	**(443,881)**	**(161,166)**

23. Finance cost

	2010 '000 RUR	2009 '000 RUR
Gain on sales of investments held to maturity	-	43,980
Interest income	38,103	134,679
Bank charges	(20,042)	(65,462)
Interest expenses – 3rd parties	(728,282)	(395,373)
Interest expenses on finance lease	(28,863)	(2,397)
Interest expenses - related parties	(40,890)	(76,552)
Finance cost, net	**(779,975)**	**(361,125)**

24. Income tax

	2010 '000 RUR	2009 '000 RUR
Income tax expense – current	(285,607)	(120,323)
Deferred tax expense – origination and reversal of temporary differences	(83,565)	(72,833)
Income tax expense	**(369,171)**	**(193,156)**

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

	2010 '000 RUR	%	2009 '000 RUR	%
Income before taxation	889,424	100	547,946	100
Theoretical tax charge at statutory rate of 20%	(177,885)	20	(109,589)	20
Expenses non-deductible for tax purposes	(81,765)	9	(83,567)	15
Adjustments to current tax in respect of prior years	(109,522)	12	-	-
Income tax expense	**(369,171)**	**42**	**(193,156)**	**35**

24. Income tax (continued)

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

'000 RUR	31 December 2010	31 December 2009
Assets		
Property, plant and equipment	2,755	8,761
Inventories	769,990	574,750
Trade and other accounts receivable	210,073	203,607
Trade and other accounts payable	385,609	301,541
Post-employments benefits	29,618	27,858
Lease liability	30,827	855
	1,428,872	1,117,373
Liabilities		
Property, plant and equipment	(162,113)	(183,470)
Intangible assets	(15,399)	(9,010)
Amounts due from customers for contract work	(1,201,198)	(803,928)
Trade and other accounts payable	(12,760)	-
	(1,391,470)	(996,407)
Net balances		
Property, plant and equipment	(159,358)	(174,709)
Intangible assets	(15,399)	(9,010)
Inventories	769,990	574,750
Trade and other accounts receivables	210,073	203,607
Amounts due from customers for contract work	(1,201,198)	(803,928)
Trade and other accounts payable	372,849	301,541
Post-employments benefits	29,618	27,858
Lease liability	30,827	855
	37,401	120,966

The statutory tax rate effective in the Russian Federation was 20% in 2010 and in 2009. Most part of the deferred tax assets will be realized within 12 months after the reporting date.

25. Personnel expenses

	2010 ’000 RUR	2009 ’000 RUR
Wages, salaries and related taxes included in:		
Cost of sales	1,021,399	708,833
Selling and distribution costs	56,530	29,138
Administration expenses	988,058	852,116
	2,065,987	**1,590,087**

26. Significant non-cash transactions

Included in revenues are non-cash transactions amounting to RUR 95k (2009: RUR 26,895k). Non-cash transactions have been excluded from the consolidated cash flow statement.

27. Contingencies, commitments and operating risks

Operating environment of the Group

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

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Litigations

During the year, the Group was involved in a number of court proceedings as a plaintiff arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company.

28. Subsidiaries and business combinations

Principal subsidiaries and special purpose entity

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

Entity	Country of incorporation	Activity	2010 % share	2009 % share
Subsidiaries:				
PJSC Krasny Kotelschik	Russia	Production	70.84	70.84
PJSC BSKBKU	Russia	Engineering	74.00	70.00
PJSC Engineering Company EMAlliance	Russia	Engineering	100.00	100.00
LLC RO CKTI	Russia	Engineering	100.00	100.00
LLC EMAlliance-TEP	Russia	Engineering	100.00	100.00
Tetra Energia Technologie	Germany	Consultancy	75.96	75.96
LLC EMAlliance-Engineering	Russia	Engineering	74.85	74.85
LLC EMAlliance-Finance	Russia	Financing	-	-
LLC Promishlennik*	Russia	Trading	100.00	100.00
LLC Novye Tehnologicheskie Sistemy*	Russia	Production	75.00	75.00

**Subsidiaries of PJSC Krasny Kotelschik*

Consolidation of EMAlliance-Finance LLC

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

29. Capital management

The Group's main objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide its equity growth and increase in the cost of shares for shareholders. Third parties which are influenced by the Group's activities also have their portion of benefits. The capital management process is aimed at maintenance of an optimal capital structure to reduce the cost of capital for the Group. In order to maintain the capital structure, the Group generates earnings and attracts borrowings. It may also adjust the amount of dividends paid to shareholders, issue new shares or sell part of assets to reduce or repay debts. The capital of the Group includes equity comprising share capital, reserves, including retained earnings, non-controlling interest, and debt capital including long-term liabilities (debt). The capital managed by the Group as at 31 December 2010 amounted to RUR 3,317,982k (2009: RUR 4,089,526k).

The Group monitors the amount and structure of its capital on the basis of the gearing ratio to be consistent with other companies in the industry. This ratio is calculated as debt divided by total capital controlled by the Group. The amount of capital is entirely under the Group's management. During 2010, the gearing ratio is as follows: (26)% of equity and 126% of debt. Comparing with the year 2010 the Group increased its gearing ratio by 5% (2009: (31)% of equity and 131% of debt).

30. Financial risk management

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

The total monetary financial assets and liabilities are as follows:

	31 December 2010 '000 RUR	31 December 2009 '000 RUR
Monetary financial assets		
Trade and other receivables (Note 9)	3,705,564	2,020,122
Cash and cash equivalents (Note 13)	414,336	616,379
Other financial assets (Note 8)	29,253	15,603
	4,149,153	**2,652,103**
Monetary financial liabilities		
Borrowings (Note 14)	(6,500,330)	(3,892,522)
Finance lease (Note 14)	(154,137)	(4,274)
Trade and other payables (Note 15)	(1,093,471)	(1,576,594)
	(7,747,938)	**(5,473,390)**

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products, goods, provision of services and performance of work on credit terms or origination of assets repaid in instalments.

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

	31 December 2010 '000 RUR	31 December 2009 '000 RUR
Other financial assets		
Non-current portion of other financial assets (Note 8)	1,608	1,641
Loans issued to employees (Note 8)	26,445	13,779
Current portion of investments held-to-maturity (Note 8)	1,200	183
	29,253	**15,603**
Receivables		
Non-current portion of other receivables (Note 9)	308,480	274,420
Less allowance for impairment of non-current receivables	(52,582)	(52,181)
Current portion of trade and other receivables (Note 9)	3,531,246	2,030,010
Less allowance for impairment of current receivables	(81,580)	(232,127)
	3,705,564	**2,020,122**
Cash and cash equivalents (Note 13)	**414,336**	**616,379**
Total on-balance sheet exposure	4,283,315	2,936,411
Less allowance for impairment of assets	(134,162)	(284,308)
Total maximum exposure to credit risk	**4,149,153**	**2,652,103**

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

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

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

	31 December 2010 '000 RUR	**31 December 2009 '000 RUR**
Non-current portion of other receivable (Note 9)		
Tehnopromeksport	277,686	252,047
Power Machines	27,776	22,373
Fortum	3,019	-
	308,480	**274,420**
Current portion of trade and other receivables (Note 9)		
Tehnopromeksport	1,529,984	639,022
Teploenergomash	501,908	-
Alstom	375,673	372,857
Backward ltd	247,000	247,000
Group E4	253,760	73,073
OGK-6	146,670	-
Fortum	97,315	-
Zapadenergo	34,874	-
Rospostavka	25,182	25,182
FRIGIA S.A.	23,214	41,287
Power Machines	19,327	163,596
Auburn Investments ltd	9,500	12,480
KATEKenergoremont	-	10,986
Zio Mar	-	23,259
Brestenergo	-	69,500
Sobinbank	-	8,063
Other customers	266,839	343,706
	3,531,246	**2,030,010**

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

Market risk

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

Currency risk

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

‘000 RUR	**At 31 December 2010**		
	Monetary financial assets and investments available for sale	**Monetary financial liabilities**	**Net balance sheet position**
Russian Roubles	2,983,545	(7,381,204)	(4,397,659)
US Dollars	782,148	(205,887)	576,261
Euros	383,461	(160,848)	222,613
	4,149,153	(7,747,938)	(3,598,785)

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

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

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

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

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

	2010 '000 RUR	2009 '000 RUR
Impact on profit or loss of:		
US Dollar appreciation by 10%	57,626	103,145
US Dollar depreciation by 10%	(57,626)	(103,145)
Euro appreciation by 10%	22,261	19,583
Euro depreciation by 10%	(22,261)	(19,583)

Interest rate risk

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

'000 RUR	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
31 December 2010					
Monetary financial assets	3,877,177	-	255,898	16,078	4,149,153
Monetary financial liabilities	(3,737,241)	(4,010,697)	-	-	(7,747,938)
Net monetary financial assets/ (liabilities)	139,936	(4,010,697)	255,898	16,078	(3,598,785)
31 December 2009					
Monetary financial assets	2,428,224	-	222,239	1,641	2,652,103
Monetary financial liabilities	(2,552,561)	(2,436,139)	(484,690)	-	(5,473,390)
Net monetary financial assets/ (liabilities)	(124,337)	(2,436,139)	(262,451)	1,641	(2,821,287)

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

Liquidity risk

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

The table below shows financial liabilities at 31 December 2010 and 31 December 2009 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and non-current portion of accounts payable. The discounted cash flows to be allocated for repayment of liabilities differ from carrying amount of these liabilities recorded in the consolidated balance sheet at the reporting dates. The reason is that the carrying amount is calculated under the effective interest method by discounting future cash flows.

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

The maturity analysis of financial liabilities as at 31 December 2010 and 31 December 2009 is as follows:

'000 RUR	**Less than 1 year**	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**	**Total**
Liabilities as at 31 December 2010					
Borrowings (Note 14)	(2,715,900)	(4,688,803)	-	-	(7,404,702)
Finance lease (Note 14)	(1,125)	(223,730)	-	-	(224,854)
Trade and other payables (Note 15)	(1,093,471)	-	-	-	(1,093,471)
Total future payments, including principal amount net of interest	(3,810,495)	(4,912,532)	-	-	(8,723,028)
Liabilities as at 31 December 2009					
Borrowings (Note 14)	(1,033,422)	(3,030,338)	(704,925)	-	(4,768,685)
Finance lease (Note 14)	(1,650)	(3,400)	-	-	(5,050)
Trade and other payables (Note 15)	(1,576,594)	-	-	-	(1,576,594)
Total future payments, including principal amount net of interest	(2,611,666)	(3,033,738)	(704,925)	-	(6,350,329)

31. Contingent liabilities

Legal claims

As at 31 December 2010 contingent liability on the legal claims from customers is estimated to be RUR 76,173k (2009: nil). In February 2011 the customer's claim of RUR 17,000k was satisfied. The remaining amount of liability is subject to legal arbitration and only expected to be finalised in 2011.

Bank guarantees upon execution of contract liabilities

As at 31 December 2010 bank guarantees of RUR 953,486k related to execution of contract liabilities are as follows:

Holder of pledge	Beneficiary	Date of issue	Maturity date	Annual interest rate	Amount of guarantee '000 RUR
Probusinessbank	Quartz Group	27.11.2009	31.05.2011	2.50%	60,000
Probusinessbank	Dnepenergo	24.12.2010	31.01.2012	1.50%	3,837
UCB bank	Fortum	06.11.2009	31.01.2014	2.20%	220,361
UCB bank	Fortum	06.11.2009	31.01.2015	2.20%	103,240
Alfabank	Fortum	19.11.2010	31.01.2015	1.25%	109,081
OTKRITIE Bank	Mosenergo	29.12.2010	31.03.2011	2.25%	456,967
					953,486

These guarantees are bought by the Group from the abovementioned banks and are the essential condition of contracts with customers. Banks will pay the guarantee amount to the customers in case the Group fails to follow the contract terms. Further the Group will have to compensate the amounts to the bank at the agreed terms.

32. Post balance sheet events

New loans and borrowings and repayment of loans

On January 27, 2011 the Company repaid a loan to MDM bank amounting to RUR 390,000k and on February 10, 2011 the Company repaid loan in the amount of RUR 105,000k to MDM bank.

On February 02, 2011 the Company obtained a loan from Russian Regional Development Bank (RRDB) amounting to EUR 14,650k (RUR 596,794k). The loan bears interest of 4.35% p.a. and is repayable till 02 February 2013.

On February 08, 2011 the Company obtained a loan from Russian Regional Development Bank (RRDB) amounting to EUR 4,350k (RUR 173,823k). The loan bears interest of 4.35% p.a. and is repayable till 08 February 2013.

On February 10, 2011 the Company obtained second part of the loan issued 27 December 2010 by Globeksbank amounting to RUR 400,000k. The loan bears interest of 8% p.a. and is repayable till 27 December 2011. The loan is guaranteed by ordinary shares of the Group's subsidiary PJSC Krasny Kotelschik (25% plus 1 share) and by expected cash receipts from customer on large contract.

On March 30, 2011 the Company obtained a loan from Alfabank amounting to RUR 550,000k. The loan bears interest of 8.5% p.a. and is repayable till 31 October 2013. The loan is guaranteed by expected cash receipts from customer on large contract.

New representative office

On February 10, 2011 the Company's Board of Directors approved opening a representative office in Belarus (Minsk) and Ukraine (Donezk).

Disposals of non-controlling interests

On March 18, 2011 the Company's Board of Directors approved selling 22,000 ordinary shares of the Group's subsidiary PJSC BSKBKU (22% of shares).

Delisting on stock exchange

On March 28, 2011 the ordinary shares of the Company were excluded from the quotation list category B on the RTS Russian stock exchange.

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

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

		2010 **'000 RUR** **unaudited**	**2009** **'000 RUR** **unaudited**
Revenue		**13,754,269**	**9,593,100**
Gross profit		3,748,865	2,669,475
	% to revenue	*27.3%*	*27.8%*
Net profit for the period		**520,253**	**354,790**
	% to revenue	*3.8%*	*3.7%*
(+) Income tax expense		369,171	193,156
(+) Interest expenses		759,932	295,663
(+) Foreign exchange difference, net		2,229	9,920
(+) Depreciation and amortisation		247,242	299,227
Total EBITDA adjustments		1,378,574	797,965
EBITDA		**1,898,827**	**1,152,755**
	% to revenue	*13.8%*	*12.0%*