

Hydraulic Machines and Systems Group LLC

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

31 December 2007

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Participants and Board of Directors of
Investment and Industrial Group Hydraulic Machines and Systems LLC:

- 1 We have audited the accompanying consolidated financial statements of Investment and Industrial Group Hydraulic Machines and Systems LLC and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

- 6 The consolidated financial statements of the Group as of and for the year ended 31 December 2006 were audited by other auditors whose report, dated 18 August 2008, expressed a disclaimer of opinion on the consolidated income statement and consolidated cash flow statement. The scope of their work was limited as they did not observe the counting of the physical inventory stated as of 1 January 2006, since that date was prior to their appointment as auditors, and they were unable to satisfy themselves as to inventory quantities by other audit procedures. The balance of inventory at 1 January 2006 forms part of opening position for the corresponding period.

Opinion

- 7 In our opinion, except for the possible effect on the corresponding figures for the year ended 31 December 2006 of the matters referred to in the Basis for Qualified Opinion paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

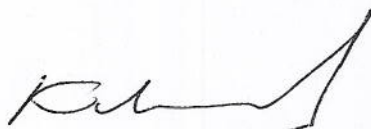
ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
25 October 2008

Hydraulic Machines and Systems Group LLC
Consolidated Balance Sheet as of 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2007	31 December 2006
ASSETS			
Non-current assets:			
Property, plant and equipment	6	2,867,035	1,928,832
Intangible assets	7	46,589	71,307
Goodwill	8	207,329	16,757
Investments in associates	10	416,860	-
Deferred tax assets	23	57,711	9,777
Other long-term receivables	14	50,911	1,005
Total non-current assets		3,646,435	2,027,678
Current assets:			
Inventories	12	1,852,958	1,183,338
Trade and other receivables	13	3,993,963	1,692,359
Cash and cash equivalents	11	304,570	142,382
Restricted cash	11	890	200
Total current assets		6,152,381	3,018,279
TOTAL ASSETS		9,798,816	5,045,957
EQUITY AND LIABILITIES			
Minority interest		567,953	687,257
Net assets attributable to the Group's participants:			
Paid-in capital	22	218,080	218,080
Cumulative surplus of net assets		1,538,482	1,168,182
Total net assets attributable to participants		1,756,562	1,386,262
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	15	52,631	947,587
Finance lease liability	16	41,388	1,836
Deferred tax liability	23	237,553	269,681
Pension liability	17	118,276	90,292
Other provisions for liabilities and charges	19	29,594	5,181
Total non-current liabilities, excluding net assets attributable to participants		479,442	1,314,577
Total non-current liabilities		2,236,004	2,700,839
Current liabilities:			
Trade and other payable	21	3,856,253	1,220,587
Short-term borrowings	15	2,898,852	356,809
Finance lease liability	16	22,816	4,262
Pension liability	17	11,676	-
Current income tax payable		23,593	9,524
Other taxes payable	20	181,669	66,679
Total current liabilities		6,994,859	1,657,861
TOTAL EQUITY AND LIABILITIES		9,798,816	5,045,957

Approved for issue and signed on behalf of the Board of Directors on 25 October 2008



K.V. Molchanov
Vice-president HMS Group OJSC



M.Y. Kuzmenko
Finance Director

Hydraulic Machines and Systems Group LLC
Consolidated Income Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

	Note	2007	2006
Revenue	24	13,399,356	6,723,613
Cost of sales	25	(10,807,001)	(5,229,997)
Gross profit		2,592,355	1,493,616
Distribution and transportation expenses	26	(459,783)	(269,248)
Excess of fair value of net assets acquired over the cost of acquisition	9	-	40,452
General and administrative expenses	27	(1,134,380)	(579,412)
Other operating expenses - net	28	(134,405)	(2,650)
Operating profit		863,787	682,758
Finance income	29	35,053	2,831
Finance costs	30	(249,097)	(119,763)
Share of results of associates	10	18,129	-
Profit before income tax		667,872	565,826
Income tax charge	23	(176,690)	(178,022)
Profit after tax		491,182	387,804
Other changes in net assets attributable to participants	22	(2,130)	(129,136)
Increase in net assets		489,052	258,668
Increase in net assets attributable to:			
Participants of the Group		370,300	167,238
Minority interest		118,752	91,430
Increase in net assets		489,052	258,668

Hydraulic Machines and Systems Group LLC
Consolidated Statement of Cash Flows for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

	Note	2007	2006
Cash flows from operating activities			
Profit before income tax		667,872	565,826
Adjustments for:			
Depreciation and amortization	6,7	277,172	139,305
Loss/(profit) from disposal of property, plant and equipment and intangible assets		27,273	(22,588)
Interest income		(35,053)	(2,831)
Interest expense	30	224,667	121,547
Pension expenses	27	45,130	18,159
Provision for warranty		1,250	1,125
Provision for impairment of accounts receivable	13	69,373	11,862
Provision (reverse of provision) for obsolete inventories		48,383	(16,589)
Foreign exchange gain		(4,422)	(16,014)
Share of result of associates	10	(18,129)	-
Excess of fair value of net assets acquired over the cost of acquisition	9	-	(40,452)
Operating cash flows before working capital changes		1,303,516	759,350
(Increase)/decrease in inventories		(139,810)	4,487
Increase in trade receivables		(1,435,877)	(72,507)
Decrease in other receivables		-	2,978
Decrease in taxes and levies payable		(86,481)	(299)
Increase/(decrease) in accounts payable and accrued liabilities		1,276,894	(239,455)
Restricted cash	11	(690)	(200)
Cash generated from operations		917,552	454,354
Income tax paid		(328,099)	(189,540)
Interest paid		(229,115)	(70,719)
Net cash from operating activities		360,338	194,095
Cash flows from investing activities:			
Repayment of loans advanced		90,676	110,517
Loans advanced		(110,834)	(12,221)
Proceeds from the sale of property, plant and equipment		6,763	14,231
Interest received		403	922
Acquisition of intangible assets		(5,304)	(7,754)
Prepayments for business combinations		(199,399)	(197,338)
Acquisition of property, plant and equipment		(529,777)	(218,633)
Acquisition of associates	10	(398,731)	-
Acquisitions of subsidiaries, net of cash acquired	9	(398,242)	(272,365)
Net cash used in investing activities		(1,544,445)	(582,641)
Cash flows from financing activities:			
Repayment of borrowings		(3,777,447)	(3,844,896)
Proceeds from borrowings		5,413,921	4,402,132
Payment for finance lease		21,043	1,419
Acquisition of non-controlling interest in subsidiaries	9	(89,167)	(10,773)
Dividend paid to minority holders of subsidiaries	22	(221,915)	(161,561)
Proceeds from additional issue of subsidiary's shares		-	2,000
Net cash from financing activities		1,346,295	385,483
Net increase / (decrease) in cash and cash equivalents		162,188	(3,063)
Cash and cash equivalents at the beginning of the year, net of restricted cash of RR 200	11	142,382	145,445
Cash and cash equivalents at the end of the year, net of restricted cash of RR 890	11	304,570	142,382

The accompanying notes on pages 6 to 46 are an integral part of these consolidated financial statements.

Hydraulic Machines and Systems Group LLC
Consolidated Statement of Changes in Equity for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

	Note	Minority interest
Balance at 1 January 2006		417,820
Profit for the year attributable to minority interest		91,430
Business combinations	9	242,374
Acquisition of minority interest in the subsidiaries	9	(19,076)
Distribution to minority holders of the Group's subsidiaries		(161,560)
Re-distribution of net assets to minority holders of the Group's subsidiaries	22	116,269
Balance at 31 December 2006		687,257
Balance as of 1 January 2007		687,257
Profit for the year attributable to minority interest		118,752
Business combinations	9	85,130
Acquisition of minority interest in the subsidiaries	9	(276,585)
Distribution to minority holders of the Group's subsidiaries		(221,689)
Re-distribution of net assets to minority holders of the Group's subsidiaries	22	175,089
Balance as of 31 December 2007		567,953

1 The Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2007 for Limited Liability Company Investment and Industrial Group Hydraulic Machines and Systems ("the Company") and its subsidiaries ("the Group"). The Group's principal business activities are: Manufacturing of a wide range of pumps and pumping units, manufacturing and repairing of oil and gas equipment, engineering and construction services mainly for oil and gas companies. These products and services are sold both in the Russian Federation and abroad. The Company is incorporated and domiciled in the Russian Federation. The address of its registered office is 3rd Pryadilnaya St. 6A, 105037 Moscow. The Group's manufacturing facilities are primarily located in Orel, Vladimir, Tomsk and Tumen regions of the Russian Federation and Sumy in Ukraine.

Information about the Group's subsidiaries (core activities, voting power of the Group and effective ownership of the Group) as of 31 December 2007 is provided below:

Company	Nature of operations	Country	Group's voting power, %	Group's effective ownership, %
HYDROMASHSERVICE CJSC	Wholesale of oilfield and pumping equipment, commission trade	Russia	100%	100%
HYDROMASHINPROM CJSC	Wholesale of oilfield and pumping equipment	Russia	95%	71%
Hydraulic Machines and Systems Management LLC	Management services to Group companies	Russia	100%	84%
United Industrial Group LLC	Information and consulting services	Russia	100%	100%
Electrodivigatel OJSC	Production and sales of pumping equipment, engines and spare parts	Russia	75%	57%
Livhydromash OJSC	Production and sales of pumping equipment and spare parts	Russia	98%	96%
Neftemash OJSC	Production and sales of oilfield equipment	Russia	85%	80%
Livnynasos OJSC	Production and sales of pumping equipment and spare parts	Russia	81%	70%
LPKS LLC	Production and sales of pumping equipment and spare parts	Russia	100%	89%
Nasosenergomash OJSC	Production and sales of pumping equipment and spare parts	Ukraine	83%	83%
Sumskie Nasosy TH LLC	Wholesale and retail trade on commission	Ukraine	83%	83%
Nizhnevertovskremsservice CJSC	Oilfield equipment repairs	Russia	100%	100%
Tomskgazstroy OJSC	Construction and assembly	Russia	51%	51%
Otdelochnik Tomskgazstroy LLC	Construction and assembly	Russia	51%	51%
Sibservis LLC	Information and consulting services	Russia	100%	100%
Trest Sibkomplektmontagnaladka OJSC	Construction and assembly	Russia	97%	97%
HMS-engineering LLC	Idle	Russia	100%	100%

2 Basis of Preparation and Summary of Significant Accounting Policies

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

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

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

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company.

Transactions with minority interests. The Group applies a policy of treating transactions with minority interests as transactions with participants of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from net assets attributable to participants. Gains or losses on disposals to minority interests are also recorded in net assets attributable to participants. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in net assets attributable to participants.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

Uncertain tax positions. Russian tax legislation is subject to varying interpretations. Interpretations may have an impact on recognised current and deferred income taxes, VAT or other tax liabilities. An interpretation of tax laws resulting in a specific treatment in the tax return is often referred to as a 'tax position'. A tax position may be clearly erroneous or maybe just uncertain. Uncertainties may arise from ambiguities in the text of the tax laws, administrative practices, or from a need to make estimates, for example in determining whether transfer prices are at a market level. Uncertain tax positions may or may not be sustainable if challenged by competent tax authorities in full knowledge of all relevant facts and circumstances.

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

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

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

- (i) assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of net assets attributable to participants.

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

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

At 31 December 2007 the principal rates of exchange used for translating foreign currency balances were UAH 1 = RR 4,8235 (2006: UAH 1 = RR 5,2198), BYR 1 = RR 0,0114 (2006: BYR 1 = RR 0,0123).

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

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

Net assets attributable to participants. The Company's equity participants have a right to request redemption of their interests in the Company in cash. The Company's obligation to redeem gives rise to a financial liability for the present value of the redemption amount even though the obligation is conditional on the equity participant exercising the right. It is impractical to determine the fair value of this liability as it is unknown when and if participants will withdraw from the Company. As a practical expedient, the Company measures the liability presented as 'Net assets attributable to participants' at the IFRS carrying value of the Group's consolidated net assets. The liability is classified as non-current because the Company has an unconditional right to defer redemption for at least twelve months after the balance sheet date.

Dividends to participants are presented as a finance cost in the income statement and are recognised when declared. Dividends are disclosed when they are proposed or declared after the balance sheet date but before the financial statements are authorised for issue. Russian legislation identifies as basis for distributions net profit determined in accordance with Russian Accounting Regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3 Critical Accounting Estimates and Judgments

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

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

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

(b) Related party transactions

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

(c) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 32.

(d) Provision for pension obligations

The principal assumptions used in valuation of pension obligations are the discount rates used in determining the present value of post employment benefits, expected rate of return on plan assets, salaries at retirement for post-employment defined benefit plan (Note 16). The Group's estimates for pension obligations provisions are based on currently available information. Actual results may differ from the estimates, and the Group's estimates can be revised in the future, either negatively or positively. Provisions for pension obligations are periodically adjusted based on updated actuarial assumptions.

(e) Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 8. At 31 December 2007 no impairment of goodwill was required, and none would be required even if the budgeted cash flow projections for any of CGUs had been 5% lower than management estimates at 31 December 2008 (for example: for Tomskgazstroy OJSC RR 97,581, instead of RR 102,717; for Sibkomplektmontazhnaladka Trust OJSC of RR 151,975, instead of RR 159,974), and the weighted average growth rate had been 1% lower than calculated as at 31 December 2008 (for example, 12% instead of 13% applied in calculations).

(f) Assessment of percentage of completion on construction contracts

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

3 Critical Accounting Estimates and Judgments (continued)

(g) Net assets attributable to participants

The liability for the redemption right held by the Company's equity participants is classified as 'at fair value through profit or loss' under IAS 39 (revised 2003). It should be measured at fair value, being the present value of the expected redemption amount. It is impractical to determine the exact fair value of this liability as it is unknown when and if participants will withdraw from the Company. The Group's accounting policy for determining this amount, applied as a practical expedient, is disclosed in Note 2. The Company's standalone net assets determined in accordance with the Russian Accounting Regulations are RR 269,909 at 31 December 2007 (2006: RR 265,810). This amount would have been payable if all participants had exercised their redemption rights at the balance sheet date.

4 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated financial statements.

New interpretations. The Group has adopted the following interpretations which became effective from 1 January 2007:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

The new IFRIC interpretations 7 to 10 did not significantly affect the Group's financial statements.

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

5 New Accounting Pronouncements

Certain new standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the entity has not early adopted:

Puttable financial instruments and obligations arising on liquidation – IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

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

5 New Accounting Pronouncements (continued)

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

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

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

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment is not relevant to the Group.

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

5 New Accounting Pronouncements (continued)

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

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

Reclassification of Financial Assets (Amendments to IAS 39 Financial Assets: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures) The amendment to the standard permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of fair value through profit or loss category in particular circumstances. The amendment also permits the entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available-for-sale), if the entity has an intention and ability to hold that financial asset for the foreseeable future. The amendments will not have an impact on the Group's consolidated financial statements.

New interpretations. The Group has not early adopted the following new interpretations:

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 15, Agreements for construction of real estates (effective from 1 January 2009);
- IFRIC 16, Hedges of a net investment in a foreign operation (effective from 1 October 2008).

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

6 Property, Plant and Equipment

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

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost at 1 January 2006	75,458	601,925	409,332	68,515	91,325	26,588	1,273,143
Accumulated depreciation	-	(32,547)	(75,043)	(14,752)	(22,480)	-	(144,822)
Carrying amount at 1 January 2006	75,458	569,378	334,289	53,763	68,845	26,588	1,128,321
Acquisitions through business combinations (Note 9)	4,127	454,009	217,783	15,864	13,267	39,320	744,370
Additions	-	12,389	32,487	3,673	7,528	153,857	209,934
Transfers	3,008	33,566	53,130	15,925	17,007	(122,636)	-
Disposals	(983)	(75)	(3,715)	(4,794)	(1,732)	(9,663)	(20,962)
Depreciation for the period	-	(28,331)	(73,327)	(13,587)	(17,586)	-	(132,831)
Carrying amount at 31 December 2006	81,610	1,040,936	560,647	70,844	87,329	87,466	1,928,832
Cost at 1 January 2007	81,610	1,095,005	704,401	96,041	125,884	87,466	2,190,407
Accumulated depreciation	-	(54,069)	(143,754)	(25,197)	(38,555)	-	(261,575)
Carrying amount at 1 January 2007	81,610	1,040,936	560,647	70,844	87,329	87,466	1,928,832
Acquisitions through business combinations (Note 9)	36,850	425,608	205,465	18,852	8,277	32,381	727,433
Additions	-	3,742	47,403	5,265	2,559	431,017	489,986
Transfers	-	71,023	238,737	26,350	27,424	(363,534)	-
Disposals	-	(1,291)	(15,140)	(1,987)	(4,580)	(12,162)	(35,160)
Depreciation for the period	-	(42,136)	(157,794)	(23,504)	(20,622)	-	(244,056)
Carrying amount at 31 December 2007	118,460	1,497,882	879,318	95,820	100,387	175,168	2,867,035
Cost at 1 January 2008	118,460	1,593,816	1,170,499	142,415	153,101	175,168	3,353,459
Accumulated depreciation	-	(95,934)	(291,181)	(46,595)	(52,714)	-	(486,424)
Carrying amount at 31 December 2007	118,460	1,497,882	879,318	95,820	100,387	175,168	2,867,035

As of 31 December 2007, the Group's property, plant and equipment for a total of RR 192,522 had been pledged as security for loan (2006: RR 118,838) (Note 15).

The Group leases plant and equipment under a finance lease arrangements. As of 31 December 2007, the gross book value of the leased equipment was RR 102,537 (2006: RR 22,317), accumulated depreciation was RR 9,557 (2006: RR 2,292).

Construction-in-progress includes advances for capital expenditures for a total of RR 68,008 as of 31 December 2007 (2006: RR 29,326).

7 Other Intangible Assets

	Patents	Licensed technology	Acquired software license	Customer relationships	Websites	Total
Carrying amount at 1 January 2006	16,366	2,759	1,773	-	9	20,907
Cost at 1 January 2006	21,870	4,710	2,310	-	9	28,899
Accumulated amortization and impairment	(5,504)	(1,951)	(537)	-	-	(7,992)
Acquisitions through business combinations (Note 9)		1,435	83	52,980	26	54,524
Additions	4,120	407	2,341	-	-	6,868
Disposals	(3,994)	(515)	-	-	(9)	(4,518)
Amortization for the year	(4,697)	(1,073)	(704)	-	-	(6,474)
Carrying amount at 31 December 2006	11,795	3,013	3,493	52,980	26	71,307
Cost at 1 January 2007	18,554	5,697	4,250	52,980	26	81,507
Accumulated amortization and impairment	(6,759)	(2,684)	(757)	-	-	(10,200)
Acquisitions through business combinations (Note 9)	-	1,120	2,112	-	-	3,232
Additions	1,287	4,088	9,413	-	-	14,788
Disposals	(6,790)	(1,269)	(1,563)	-	-	(9,622)
Amortization for the year	(2,485)	(754)	(3,382)	(26,490)	(5)	(33,116)
Carrying amount at 31 December 2007	3,807	6,198	10,073	26,490	21	46,589
Cost at 1 January 2008	7,405	9,282	13,587	52,980	26	83,280
Accumulated amortization and impairment	(3,598)	(3,084)	(3,514)	(26,490)	(5)	(36,691)
Carrying amount at 31 December 2007	3,807	6,198	10,073	26,490	21	46,589

8 Goodwill

Movements in goodwill on acquisition of the subsidiaries:

	Note	2007	2006
Gross book value as of 1 January		16,757	-
Accumulated impairment as of 1 January		-	-
Carrying amount as of 1 January		16,757	-
Acquisitions of subsidiaries	9	190,572	16,757
Carrying amount as of 31 December		207,329	16,757
Gross book value as of 31 December		207,329	16,757
Accumulated impairment losses as of 31 December		-	-
Carrying amount as of 31 December		207,329	16,757

Goodwill impairment test

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

	2007	2006
Tomskgazstroy OJSC	16,757	16,757
Trest Sibkomplektmontazhnaladka OJSC	190,572	-
Total carrying amount of goodwill	207,329	16,757

8 Goodwill (continued)

Goodwill impairment test (continued)

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

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

	2007	2006
Growth rate beyond five years	0.1%	0.1%
Pre-tax discount rate	13%	13%

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

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

9 Business Combinations

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

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

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

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

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

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

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

9 Business Combinations (continued)

Acquisition of minority interest in subsidiaries in 2007

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

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

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

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

Prior year acquisitions

In June 2006, the Group acquired an 83% interest on TH Sumskie Nasosy OJSC for RR 103, paid in cash. The principal activities of the acquired entity include commission sale to the third parties of Nasosenergomash OJSC's products. TH Sumskie Nasosy OJSC is located in the Sumy (Ukraine). The acquired entity contributed revenue of RR 4,145 and profit of RR 83 to the Group for the period from the date of acquisition to 31 December 2006. If the acquisition had occurred on 1 January 2006, the revenue from the acquired entity would have been RR 8,300, and profit would have been RR 160 for 2006.

In September 2006 the Group acquired the 100% interest in Nizhnevertovskcremservice CJSC for RR 200,111 paid in cash. The excess of the fair value of net assets acquired over the purchase price paid at the date of acquisition was recognised in the income statement in the amount of RR 40,452. The primary reason for excess of the fair value over the purchase price was favourable bargain deal terms, which management negotiated with previous owners of Nizhnevertovskcremservice CJSC. Nizhnevertovskcremservice CJSC was acquired with the view of development and extension of the Group's business line "Oil and gas equipment". Nizhnevertovskcremservice CJSC specializes in providing oil-field equipment repair services. The operations are conducted in Nizhnevertovsk. The acquired company contributed revenue of RR 264,371 and loss of RR 6,502 to the Group for the period from the date of acquisition to 31 December 2006. If the acquisition had occurred on 1 January 2006, the revenue from the acquired entity would have been RR 761,197, and loss would have been RR 19,992 for 2006.

During October-November 2006, the Group acquired 23% interest in Tomskgazstroy OJSC for RR 87,166 paid in cash. In December 2006 the Group obtained control over the acquired entity through having the majority of voting rights in the Board of Directors. The cost of acquisition was allocated to the assets acquired and liabilities assumed. Tomskgazstroy OJSC was acquired with the view of development and extension of the Group's business line "Oil and gas construction". Tomskgazstroy OJSC specializes in construction and assembly works at the oil fields and conducts its operations in Tomsk and in Strezhevoy cities of the Tomsk region. The acquired company did not contribute any revenue and profit to the Group for the period from the date of acquisition to 31 December 2006, as the acquisition was completed a few days before the year end. If the acquisition had occurred on 1 January 2006, the revenue from the acquired entity would have been RR 1,723,631, and profit would have been RR 98,696 for 2006.

9 Business Combinations (continued)

Prior year acquisitions (continued)

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

	Nizhneartovskrem service CJSC	Tomskgazstroy OJSC	TH Sumskie nasosy OJSC
	Attributed fair value	Attributed fair value	Attributed fair value
Cash and cash equivalents	4,558	9,431	1,026
Property, plant and equipment	385,182	359,163	25
Intangible assets	1,154	53,350	20
Deferred tax assets	-	-	50
Other non-current assets	117	292	-
Accounts receivable	70,885	357,461	5,404
Inventories	37,627	76,476	1
Taxes and levies receivable	4,739	-	335
Other receivables	9,042	1,136	6,802
Borrowings	-	(34,986)	-
Trade and other payables	(198,094)	(450,716)	(13,639)
Other provisions	(4,058)	-	-
Deferred tax liability	(70,561)	(58,773)	-
Fair value of net assets	240,591	312,834	24
Less: Minority interest	(28)	(242,342)	(4)
Fair value of acquired interest in net assets	240,563	70,492	20
Goodwill	-	16,674	83
Excess of the Group's share of the fair value of acquired net assets over the purchase price	(40,452)	-	-
Total purchase consideration	200,111	87,166	103
Less: cash and cash equivalents of subsidiaries acquired	4,558	9,431	1,026
Outflow of cash and cash equivalents on acquisition	195,553	77,735	(923)

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

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

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

Acquisition of minority interest in subsidiaries in 2006

In March 2006, the Group acquired an additional 7% interest in Nasosenergomash OJSC for RR 10,773, paid in cash. As a result of this transaction the Group increased its ownership interest in Nasosenergomash OJSC from 76% to 83% decreasing the minority interest by RR 32,642.

In May 2006, Electrodivigatel OJSC increased its share capital by RR 2,000 by issuing 200 preference shares with the nominal value of RR 10 each. The preference shares were issued to related parties. As a result of this transaction the effective interest owned by the Group decreased from 75% to 57% and minority interest increased by RR 11,682.

10 Investments in Associates

In August 2007 the Group acquired 40% interest in Zavod Promburvod OJSC for RR 28,952 paid in cash. The Group's share within associated net assets as at acquisition date was RR 38,631. The excess of fair value of the net assets acquired over the cost of acquisition of RR 9,679 was recorded in the statement of income and included in the share of results of associates.

In September 2007 the Group acquired 29.99% interest in Dimitrovgradhimmash OJSC for RR 214,431 paid in cash. The Group's share within associated net assets as at acquisition date was RR 191,254.

In September 2007 the Group acquired 47.18% interest in VNIIAEN OJSC for RR 155,348 paid in cash. The Group's share within associated net assets as at acquisition date was RR 21,883. The associate was initially recorded at cost. The cost of acquisition was provisionally allocated to assets, liabilities and contingent liabilities of the associate, which resulted in a provisional amount of goodwill of RR 133,465.

Investments in associates at 31 December 2007 include goodwill of RR 146,963 (2006: RR Nil).

The Group's investments in associates are as follows:

	31 December 2007	31 December 2006
Carrying amount at 1 January	-	-
Cost of acquisition of associates	398,731	-
The excess of fair value of the net assets acquired over the cost of acquisition	9,680	-
Share of after tax results of associates	8,449	-
Carrying amount at 31 December	416,860	-

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

Name of associate	Total assets	Total liabilities	Revenue	Profit/(loss) before tax	Interest in associate	Location
Dimitrovgradhimmash OJSC	943,619	275,982	270,674	29,927	29.99%	Russian Federation
Promburvod Plant OJSC	138,592	39,300	94,105	5,741	40%	Belorussia
VNIIAEN OJSC	69,760	26,770	1,642	(3,416)	47.18%	Ukraine

11 Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	31 December 2007	31 December 2006
Cash on hand	2,392	327
RR denominated balances with banks	271,796	109,770
Foreign currency denominated balances with banks	22,625	17,460
RR denominated bank deposits	4,653	14,825
Other cash equivalents	3,104	-
	304,570	142,382

As at 31 December 2006 the closing balance of short-term bank deposits comprised short-term bank demand deposits placed in three banks with maturity date within 3 months and weighted average interest rate of 3%.

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

Restricted cash

Restricted cash of RR 890 (2006: RR 200) represents minimum balances for settlement and deposit accounts and corporate plastic cards balances.

As at 31 December 2007 balances of other cash equivalents include the following items:

- balances on corporate plastic cards of the employees in the amount of RR 705 (2006: RR Nil);
- cash in transit in the amount of RR 2,000 (2006: RR Nil);
- promissory notes payable on demand for a total of RR 399 (2006: RR Nil).

12 Inventories

	31 December 2007	31 December 2006
Materials and components	601,388	471,322
Inventory for implementation of construction contracts	398,386	77,959
Work in progress	364,542	268,998
Finished goods	280,095	232,423
Goods for resale	225,464	137,102
Other inventories	51,309	4,552
Provision for obsolete inventories	(68,226)	(9,018)
	1,852,958	1,183,338

At 31 December 2007 inventories of RR 204,823 were pledged as collateral for borrowings (2006: RR 134,027) (Note 15).

13 Trade and Other Receivables

	31 December 2007	31 December 2006
Trade receivables	2,354,203	849,450
Less: provision for impairment of trade receivables	(51,387)	(23,036)
Promissory notes receivable	90,028	1,370
Short-term loans issued	82,620	6,681
Other receivables	55,753	124,272
Less: provision for impairment	(12,242)	(36,735)
Financial trade and other receivables - net	2,518,975	922,002
Receivable due from customers for construction work in progress	60,227	-
Advances to suppliers	1,011,597	560,469
VAT receivable	412,093	173,143
Income tax	29,212	16,768
Other taxes receivable	4,350	13,071
Deferred expenses	23,024	6,906
Less: provision for impairment	(65,515)	-
Non-financial receivables - net	1,474,988	770,357
Total trade and other receivables	3,993,963	1,692,359

Current receivables consist of trade receivables for goods shipped and services delivered. These receivables are highly liquid since under the contracts the payment terms for completed transactions range from 30 to 60 calendar days.

Advances to suppliers and contractors include advances made for the acquisition of businesses of RR 199,399.

As of 31 December 2007 VAT recoverable consists mainly of tax charged on advances from customers. This amount will be recovered as goods, work and services are provided in 2008. Also, the VAT amount includes export tax which will reduce the VAT payable to the state budget after confirmation from tax authorities is received in 2008.

	2007		2006	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Provision for impairment at 1 January	23,036	36,735	18,464	29,445
Provision for receivables impairment	28,351	41,022	4,572	7,290
Receivables written off during the year as uncollectible	-	-	-	-
Unused amounts reversed	-	-	-	-
Provision for impairment at 31 December	51,387	77,757	23,036	36,735

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

	31 December 2007	31 December 2006
RR	2,847,774	1,622,946
US dollars	89,114	56,021
EURO	991,946	-
UAH	65,129	13,392
	3,993,963	1,692,359

14 Other Non-Current Receivable

	31 December 2007	31 December 2006
Long-term loans issued	34,211	-
Loan impairment provision	(5,112)	-
Long term trade receivables	12,638	-
Other receivables	6,879	-
Other non-current financial receivables	48,616	-
Advances to suppliers and contractors	2,295	1,005
Other non-current non-financial receivables	2,295	1,005
	50,911	1,005

Long-term loans bear an interest rate of 10.5% and mature from January 2009 to December 2009.

15 Borrowings

	Interest rate	Denominated in	Maturity	31 December 2007	31 December 2006
Long-term loan:					
Bonds	9,9%	RR	November 2009	1,009,221	1,034,753
Long-term loan 1	11%	US dollar	September 2009	50,901	-
Long-term loan 2	16%	RR	September 2009	1,730	-
				1,061,852	1,034,753
Less: short-term portion of bond				(1,009,221)	(87,166)
				52,631	947,587

In October 2006 one of the Group subsidiaries, Hydromashservice CJSC, issued 1,000 thousand non-convertible three-year Russian Rouble denominated bonds (at par value 1,000 roubles each) for RR 1,000,000. The bonds bear interest rate of 9.9% per annum. The interest is payable every six months. The bond holders had the right to redeem the bonds in May 2008 (Note 35). Consequently, the bonds are classified as short-term bonds as at 31 December 2007. The fair value of the bonds, which is based on market quotations, approximates RR 887,321 (2006: RR 933,454).

As of 31 December 2007 and 2006 the fair value of long-term borrowings approximates their carrying amount.

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

	Interest rate	Denominated in	31 December 2007	31 December 2006
Short-term unsecured bank loans and borrowings				
Unsecured bank loan 1	11%	RR	1,703,300	-
Unsecured bank loan 2	11%	US dollars	47,070	135,941
Unsecured bank loan 3	15-16%	UAH	32,970	28,067
Unsecured bank loan 4	3%	RR	-	19,848
Unsecured bank loan 5	11-12%	RR	-	15,000
Unsecured bank loan 6	12%	US dollars	-	13,935
Unsecured bank loan 7	17%	RR	-	8,265
Unsecured bank loan 8	11%	EURO	-	7,042
Unsecured bank loan 9	15%	UAH	-	2,607
Unsecured bank loan 11	12%	RR	-	392
			1,783,340	231,097
Short-term secured bank loans				
Secured bank loan 1	10-11%	RR	95,000	37,715
Secured bank loan 2	10%	RR	9,737	-
			1,888,077	268,812
Current portion of long-term borrowings			1,009,221	87,166
Interest on short-term borrowings			1,554	831
			2,898,852	356,809

15 Borrowings (continued)

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

	31 December 2007	31 December 2006
RR	2,820,542	1,116,804
US Dollar	97,971	149,876
EURO	-	7,042
UAH	32,970	30,674
	2,951,483	1,304,396

As at 31 December 2007 the Group pledged property, plant and equipment and inventories in total amounts of RR 192,522 and 204,823 (2006: RR 118,838 and RR 134,027), respectively, as a security for borrowings.

As of 31 December 2007 and 2006 the fair value of short-term borrowings approximates their carrying amount.

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

16 Finance Lease Liabilities

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

	Minimum lease payments as at 31 December		Discounted value of minimum lease payments as at 31 December	
	2007	2006	2007	2006
Finance lease payable:				
Not later than 1 year	35,832	4,784	22,816	4,262
Later than 1 year and not later than 5 years	52,762	2,601	41,388	1,836
Total	88,594	7,385	64,204	6,098
Future finance charges on finance lease	(24,390)	(1,287)	-	-
Present value of liabilities	64,204	6,098	64,204	6,098
Short-term finance lease liabilities	-	-	22,816	4,262
Long-term finance lease liabilities	-	-	41,388	1,836

17 Retirement Benefit Obligations

The Group's post-employment benefits plans include the employee pension scheme and various post-employment, retirement and jubilee payments. The post-employment benefit system is a defined benefit program as part of which every participating employee receives benefits calculated in accordance with certain formula or rules.

The Group also pays various long-term post-employment benefits, including lump sum benefits in case of death of employees or former employees receiving pensions, lump sum benefits upon retirement and in connection with jubilees.

The following assumptions were used for the actuarial assessment as of 31 December 2007 and 2006:

	2007	2006
Discount rate	6.8%	6.8%
Inflation	6%	5%
Expected annual increase in salaries	9%	8%

The following amounts were recognized in the consolidated income statement:

	Year ended 31 December 2007	Year ended 31 December 2006
Cost of current services	3,220	17,272
Interest cost	7,820	1,208
Unrecognised past service cost	-	-
Actuarial loss/(gain) recognised during the year	34,090	(321)
Net periodic benefit cost	45,130	18,159

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

17 Retirement Benefit Obligations (continued)

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

	Year ended 31 December 2007	Year ended 31 December 2006
Present value of defined benefit obligations	129,952	90,292
Unrecognised actuarial gains/(losses)	-	-
Unrecognised past service cost	-	-
Liability in the balance sheet	129,952	90,292

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

	Year ended 31 December 2007	Year ended 31 December 2006
Present value of defined benefit obligations at the beginning of the year	90,292	72,663
Current service cost	3,220	17,272
Interest expense	7,820	1,208
Actuarial losses/(gains)	34,090	(321)
Benefits paid	(5,470)	(530)
Unrecognised past service cost	-	-
Present value of defined benefit obligations as at the end of year	129,952	90,292

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

	2007	2006
Short-term	11,676	-
Long-term	118,276	90,292
Present value of defined benefit obligations as at the end of year	129,952	90,292

The expected contributions under voluntary pension programs in 2008 are expected in the amount of RR 6,500.

	Year ended 31 December 2007	Year ended 31 December 2006
Defined benefit obligation	129,952	90,292
Plan assets	-	-
Deficit/surplus	-	-
Experience adjustments on plan liabilities, loss/(gain)	30,830	(307)
Experience adjustments on plan assets	-	-

18 Construction Contracts

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

In 2007 the following figures represented below related to Group subsidiaries performed activities under construction contracts:

	2007
Construction contracts revenue	3,150,626
Contract cost expensed	(2,876,204)
Gross margin	274,422

	2007
Advances, received for construction contracts	326,640
Retentions	61,739

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

	31 December 2007
Aggregate amount of contract cost incurred	1,323,516
Aggregate amount of recognized profits	120,407
Less: Progress billings	(1,383,696)
Gross amount due from customers for contract work	60,227

18 Construction Contracts (continued)

	31 December 2007
Aggregate amount of contract cost incurred	2,161,863
Aggregate amount of recognized profits	358,378
Aggregate amount of recognized losses	(10,123)
Less: Progress billings	(2,690,074)
Gross amount due to customers for contract work	(179,955)

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

19 Other Long-Term Provisions and Liabilities

	31 December 2007	31 December 2006
Warranty provision	14,656	2,839
Other long-term payables	13,702	-
Long-term advances from customers	1,236	-
Other provisions	-	2,342
	29,594	5,181

20 Other Taxes Payable

	2007	2006
Value added tax	109,036	24,268
Personal income tax	24,819	14,418
Unified social tax	35,660	22,556
Property tax	4,880	421
Transport tax	1,484	-
Land tax	1,100	-
Water tax	1,044	-
Other taxes	3,646	5,016
	181,669	66,679

21 Trade and Other Payable

	2007	2006
Trade payables	2,137,632	582,865
Other payables	93,991	117,167
Financial trade and other payable	2,231,623	700,032
Payables due to customers for construction work in progress	179,955	-
Advances from customers	1,143,941	419,179
Wages and salaries payable	196,744	68,906
Unused vacation allowance	103,990	32,470
Other non-financial payable	1,624,630	520,555
Total trade and other payable	3,856,253	1,220,587

22 Net Assets Attributable to Participants

The charter capital of the Company consists of registered, issued and fully paid participant's units for the total par value of RR 218,080.

As at 31 December 2007 there were three participants:

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

22 Net Assets Attributable to Participants (continued)

	Note	Attributable to participants of the Company	
		Paid-in capital	Cumulative surplus of net assets
Balance at 1 January 2006		218,080	1,000,944
Profit after tax attributable to participants			296,374
Other changes in net assets attributable to participants			
- Change in cumulative translation reserve			(20,137)
- Acquisition of minority interest in the subsidiaries	9		7,270
- Re-distribution of net assets to minority holders of the Group's subsidiaries			(116,269)
Balance at 31 December 2006		218,080	1,168,182
Balance as of 1 January 2007		218,080	1,168,182
Profit after tax attributable to participants			372,430
Other changes in net assets attributable to participants			
- Change in cumulative translation reserve			(14,459)
- Acquisition of minority interest in the subsidiaries	9		187,418
- Re-distribution of net assets to minority holders of the Group's subsidiaries			(175,089)
Balance as of 31 December 2007		218,080	1,538,482

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

During 2007, dividends were accrued and paid only to the holders of preference shares reflected as minority interest in the amount of RR 221,689 (2006: RR 161,560), but no dividends were paid to participants or minority holders of common shares. As a result redistribution of net assets to minority holders of preference shares and common shares was reflected in these consolidated financial statements.

23 Income Tax

The Group income tax charges were as follows:

	31 December 2007	31 December 2006
Current tax	324,654	187,550
Deferred tax	(147,964)	(9,528)
Total income tax charge	176,690	178,022

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

	31 December 2007	31 December 2006
Income before tax	667,872	565,826
Estimated tax charge at statutory rate (24%)	(160,289)	(135,798)
Effect of different tax rates on other jurisdictions	(83)	(357)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible social expenditures	(11,987)	(9,765)
Non-deductible depreciation	(2,695)	(11,042)
Other non-deductible expenses	(1,636)	(21,060)
Income tax charge	(176,690)	(178,022)

Differences between IFRS, Russian and Ukrainian tax legislation give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for tax purposes. The tax effect of these temporary differences is recorded at the rate of 24% (Russian tax legislation) and 25% (Ukrainian tax legislation), accordingly.

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

23 Income Tax (continued)

Deferred tax assets:

	31 December 2007	31 December 2006
Deferred tax assets to be recovered within 12 months	47,415	9,777
Deferred tax assets to be recovered after more than 12 months	10,296	-
Total deferred tax asset	57,711	9,777

Deferred tax liabilities:

	31 December 2007	31 December 2006
Deferred tax liabilities to be settled within 12 months	-	-
Deferred tax liabilities to be settled after more than 12 months	(237,553)	(269,681)
Total deferred tax liabilities	(237,553)	(269,681)
Deferred tax liabilities (net)	(179,842)	(259,904)

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

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

	1 January 2006	Charged/ (credited) to profit or loss	Acquisitions	31 December 2006
Deferred tax liabilities				
Property, plant and equipment	(129,219)	14,217	(131,184)	(246,186)
Intangible assets	(2,174)	192	(267)	(2,249)
Inventory	(29,889)	(13,016)	-	(42,905)
Other current assets	(24)	(3,636)	-	(3,660)
Long-term loan	(702)	(439)	-	(1,141)
	(162,008)	(2,682)	(131,451)	(296,141)
Deferred tax assets				
Short-term trade receivables	16,073	9,302	2,118	27,493
Other current assets	713	1,496	-	2,209
Short-term borrowings	1,173	(471)	-	702
Trade payables and other payables	2,883	2,901	49	5,833
Payables to the budget	1,018	(1,018)	-	-
	21,860	12,210	2,167	36,237
Total net deferred tax liability	(140,148)	9,528	(129,284)	(259,904)

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

24 Sales

	2007	2006
Sales of pumps and spare parts	4,499,742	4,429,677
Revenue from construction contracts	3,150,626	-
Sales of oilfield equipment	2,747,003	1,764,703
Sales of special equipment	988,951	-
Sales of repair services for oil-field equipment	753,446	213,572
Sales of engines	413,075	-
Sales of products, work and services of auxiliary units	182,889	19,457
Sales of other services and goods	663,624	296,204
	13,399,356	6,723,613

25 Cost of Sales

	2007	2006
Supplies and raw materials	5,378,097	2,346,656
Cost of goods sold	2,605,599	1,664,887
Labour costs	1,567,194	792,473
Construction and installation works of subcontractors	470,692	-
Depreciation and amortization	210,677	110,136
Utilities	122,593	127,694
Inventory impairment provision	48,383	(16,589)
Research and development costs	23,379	19,861
Change in work in progress and finished goods	(250,356)	17,106
Other expenses	630,743	167,773
	10,807,001	5,229,997

26 Distribution and Transportation Expenses

	2007	2006
Transport expenses	115,529	74,600
Labour costs	122,082	56,836
Provision for impairment of accounts receivable	60,158	11,862
Depreciation and amortization	33,981	8,439
Insurance	23,759	24,092
Entertaining costs and business trip expenses	23,279	8,983
Lease	17,905	15,180
Packaging expenses	11,292	4,941
Advertising	9,761	17,098
Agency services	-	16,704
Customs duties	3,491	2,337
Capital assets repair and maintenance	2,442	2,357
Products certification	1,914	1,610
Other expenses	34,190	24,209
	459,783	269,248

27 General and Administrative Expenses

	2007	2006
Labour costs	669,104	317,269
Taxes and duties	79,873	23,936
Stationary and office maintenance	53,189	22,238
Audit and consultancy services	49,664	12,565
Defined benefits scheme expenses	45,130	18,159
Depreciation and amortization	30,753	20,730
Entertaining costs and business trip expenses	26,011	11,922
Bank services	19,261	16,508
Security	16,248	15,426
Insurance	15,333	12,277
Telecommunications services	15,084	4,573
Property, plant and equipment repair and maintenance	13,486	44,057
Training and recruitment	9,524	3,152
Rent	2,358	21,462
Other expenses	89,362	35,138
	1,134,380	579,412

28 Other Operating Expenses, Net

	2007	2006
Charity, social expenditures	86,359	60,309
Gains (losses) on sales and other disposal of property, plant and equipment and intangible assets	27,273	(22,588)
Fines and late payment interest under contracts	2,735	3,212
Loss on disposal of subsidiaries	2,592	-
Expenses on transactions with securities	1,839	540
Depreciation of social assets	1,761	-
Investments impairment provision	(1,352)	-
Loss / (gain) on sales of inventories	2,702	(22,430)
Dividend income	(9)	-
Foreign exchange gains, (net)	(4,422)	(16,014)
Other expenses	14,927	(379)
	134,405	2,650

29 Finance Income

	2007	2006
Interest income	35,053	2,831
	35,053	2,831

30 Finance Expense

	2007	2006
Interest expenses	214,693	114,347
Foreign exchange losses (net)	24,398	-
Finance lease expenses	9,974	2,569
Other expenses	33	2,847
	249,097	119,763

31 Related Parties

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

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

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

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

Balances with related parties	Year ended 31 December 2006		
	Participant	Associates	Other
Accounts receivable	-	-	1,007
Accounts payable	-	-	10,399

No provision was made for doubtful accounts receivable from related parties.

31 Related Parties (continued)

Neither party issued guaranties to secure accounts receivable or payable.

Income /expenses on transactions with related parties	Year ended 31 December 2006		
	Participant	Associates	Other
Sales of goods and finished products	-	-	1,848
Sales of services	-	-	2,638
Purchase of services	-	-	-
Purchase of goods	-	-	76,142
Lease	-	-	5,228

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

In 2007, the Group issued loans to related parties for a total of RR 24,500 with a weighted average interest rate of 10.5%.

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

Key management compensation

Key management compensation amounted to RR 66,245 for the year ended 31 December 2007 (2006: RR 61,213) and includes short-term benefits such as salaries and bonuses paid to management as set forth in labour contracts concluded annually.

32 Contingencies, Commitments and Operating Risks

(i) Legal proceeding

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

(ii) Tax legislation

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

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

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

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

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

32 Contingencies, Commitments and Operating Risks (continued)

(ii) Tax legislation (continued)

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

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

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

In addition to the above transfer pricing matters and possible attribution of additional taxes to the Group's foreign companies, Management estimates that the Group has no other possible obligations from exposure to other than remote tax risks.

(iii) Environmental matters

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

(iv) Operating environment of the group

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

The Russian Federation and Ukraine display certain characteristics of an emerging market, including relatively high inflation and strong economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity and increased levels of volatility in market prices as witnessed during 2008. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Group.

The tax, currency and customs legislation within the Russian Federation and Ukraine is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation and Ukraine. The future economic direction of the Russian Federation and Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Governments of the states, together with tax, legal, regulatory, and political developments.

(v) Insurance policies

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

(vi) Contractual commitments

As at 31 December 2007 the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 85,162 (2006: RR 62,244).

32 Contingencies, Commitments and Operating Risks (continued)

(vii) *Recent volatility in global and Russian financial markets*

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the Russian banking sector, and higher interbank lending rates. The uncertainties in the global financial market, has also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their outstanding loans. Deteriorating operating conditions for borrowers may also have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, Management has reflected revised estimates of expected future cash flows in their impairment assessments.

The uncertainty in the global markets combined with other local factors has during 2008 led to very high volatility in the Russian Stock Markets and at times much higher than normal interbank lending rates.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

33 Operating Segments

The Group early adopted IFRS 8, *Operating Segments*, for the year ended 31 December 2007 and provided comparative information for 2006 accordingly. Management has determined the operating segments based on the management reports, which are primarily derived from statutory records and regularly reconciled to IFRS financial statements. The management reports are reviewed by the chief operating decision-maker that are used to make strategic decisions. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the General Director of the Company. The following criteria have been used for determining the operating segments and assigning the Group subsidiaries to particular segment:

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

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

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

	2007	2006
1	Livgydromash OJSC	Livgydromash OJSC
2	LPKC LLC	
3	Bavlensky plant Electrodivigatel OJSC	Bavlensky plant Electrodivigatel OJSC
4	Livnynasos OJSC	Livnynasos OJSC
5	Gydromashinprom CJSC	Gydromashinprom CJSC
6	Nasosenergomash OJSC	Nasosenergomash OJSC
7	TD Sumskie nasosy LLC	
8	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC

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

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

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

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

33 Operating Segments (continued)

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

1	Hydraulic Machines and Systems Management LLC	Hydraulic Machines and Systems Management LLC
2	Hydraulic Machines and Systems Group LLC	Hydraulic Machines and Systems Group LLC
3	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
4	United Industrial Group LLC (no business)	United Industrial Group LLC (no business)
5	Sibservice LLC (no business)	Sibservis LLC (no business)

List of associates with the breakdown by operating segments:

The first operating segment "Industrial pumps" includes:

2007	
1	Promburvod Plant OJSC
2	Promburvod Trade House LLC
3	VNIIAEN OJSC

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

2007	
1	Dimitrovgradhimmash OJSC

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

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

Oil and gas construction segment did not qualify as a reportable operating segment in 2006. However, with the acquisition of Tomskgazstroy OJSC in the end of 2006 and Trest SKMN OJSC in 2007 oil and gas construction qualifies as a reportable operating segment, therefore, comparatives are consistent in this regard.

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

Management assesses the performance of operating segments based on certain measures, which are presented to chief operating decision maker. This includes the financial information on the group operating reportable segments presented in accordance with Russian Statutory Accounting regulations (RSA). The information comprises measures of revenues, EBITDA, depreciation and amortization, interest income, interest expense, income tax expense and total assets. The other measures used by chief operating decision maker include income tax charge and aggregate share in net profit of associates recorded based on equity method, which are calculated and presented in accordance with International Financial Reporting Standards. Besides, management uses EBITDA, which is derived from consolidated financial statements prepared in accordance with International Financial Reporting Standards.

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

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

Hydraulic Machines and Systems Group LLC
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33 Operating Segments (continued)

The Group's financial performance by operating segments 2007:

Disclosures by segments	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions between operating segments	Consolidated for the year ended 31 December 2007
Revenue, RSA	8,040,910	3,817,413	3,555,879	310,297	15,724,499	-	15,724,499
EBITDA	596,260	791,438	288,332	(217,205)	1,458,825	-	1,458,825
Depreciation and amortization, RSA	(41,611)	(37,291)	(39,190)	(2,785)	(120,877)	-	(120,877)
Finance income, RSA	4,903	287	2,149	265	7,605	-	7,605
Finance cost, RSA	(168,138)	(37,066)	(35,564)	(22)	(240,790)	-	(240,790)
Income tax charge, IFRS	(160,880)	(97,336)	30,586	(29)	(227,659)	-	(227,659)
Aggregate share in net profit of associates recorded in consolidated accounts based on equity method, IFRS	9,154	8,975	-	-	18,129	-	18,129
Expenditures for reportable segment non-current assets	148,289	109,502	854,232	5,533	1,117,555	-	1,117,555
Investments in associates	193,465	223,395	-	-	416,860	-	416,860
Total assets, RSA	6,351,468	2,163,174	1,949,882	445,397	10,909,921	-	10,909,921

Disclosures by segments	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions between operating segments	Consolidated for the year ended 31 December 2006
Revenue, RSA	6,431,606	2,087,142	-	106,681	8,625,429	-	8,625,429
EBITDA	459,687	482,706	(7,590)	(105,152)	829,651	-	829,651
Depreciation and amortization, RSA	(34,131)	(12,685)	-	(2,208)	(49,023)	-	(49,023)
Finance income, RSA	6,786	101	-	633	7,520	-	7,520
Finance cost, RSA	(70,187)	(14,297)	-	-	(84,484)	-	(84,484)
Income tax charge, IFRS	(116,980)	(48,638)	-	(918)	(166,536)	-	(166,536)
Aggregate share in net profit of associates recorded in consolidated accounts based on equity method, IFRS	-	-	-	-	-	-	-
Expenditures for reportable segment non-current assets	90,949	464,942	319,843	8,029	883,763	-	883,763
Investments in associates	-	-	-	-	-	-	-
Total assets, RSA	3,378,711	954,556	546,367	316,036	5,195,670	-	5,195,670

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

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Consolidated for the year ended 31 December 2007
Revenue, RSA	8,040,910	3,817,413	3,555,879	310,297	15,724,499	15,724,499
Construction contracts	-	-	51,676	-	51,676	51,676
Reclassification to Other Income	7,405	(49,195)	6,541	-	(35,249)	(35,249)
Other adjustments	(2,327)	461	-	-	(1,865)	(1,865)
Intercompany transactions	(1,856,949)	(234,456)	-	(248,300)	(2,339,705)	(2,339,705)
Transactions between operating segments	14,298	-	-	181,771	196,069	-
Revenue, IFRS	6,203,336	3,534,223	3,614,097	243,768	13,595,425	13,399,356

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33 Operating Segments (continued)

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Consolidated for the year ended 31 December 2006
Revenue, RSA	6,431,606	2,087,142	-	106,681	8,625,429	8,625,429
Reclassification to Other Income	-	(23,231)	-	-	(23,231)	(23,231)
Intercompany transactions	(1,771,903)	-	-	(106,682)	(1,878,584)	(1,878,584)
Transactions between operating segments	159,756	-	-	106,681	266,438	-
Revenue, IFRS	4,819,459	2,063,911	-	106,681	6,990,051	6,723,613

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

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions between operating segments	Consolidated for the year ended 31 December 2007
EBITDA, IFRS	596,260	791,438	288,332	(217,205)	1,458,825	-	1,458,825
Depreciation and amortization	(72,431)	(69,789)	(132,207)	(2,745)	(277,172)	-	(277,172)
Non-monetary items*	(100,338)	(48,673)	(30,238)	(4,211)	(183,461)	-	(183,461)
Other income and expense	(92,248)	(22,237)	(10,838)	(9,082)	(134,405)	-	(134,405)
Operating Profit/Loss	331,243	650,738	115,049	(233,243)	863,787	-	863,787
Finance Income	7,595	10,119	11,230	6,109	35,053	-	35,053
Finance Cost	(167,769)	(21,598)	(35,136)	(163)	(224,666)	-	(224,666)
Exchange gains and losses	(19,342)	(2,153)	(4,068)	1,131	(24,431)	-	(24,431)
Share of results associates	9,154	8,975	-	-	18,129	-	18,129
Profit/(loss) before Income Tax, IFRS	160,881	646,081	87,075	(226,166)	667,872	-	667,872

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions between operating segments	Consolidated for the year ended 31 December 2006
EBITDA, IFRS	459,687	482,706	(7,590)	(105,152)	829,651	-	829,651
Depreciation and amortization	(95,201)	(42,233)	-	(1,872)	(139,305)	-	(139,305)
Non-monetary items*	(450)	(4,488)	-	-	(4,938)	-	(4,938)
Other income and expense	(10,564)	12,994	-	(5,081)	(2,650)	-	(2,650)
Operating Profit	353,473	448,979	(7,590)	(112,104)	682,758	-	682,758
Finance Income	7,468	101	-	633	8,203	5,573	2,830
Finance Cost	(105,190)	(14,530)	-	-	(119,763)	(5,573)	(114,347)
Other Income and Expense	-	-	-	-	5,415	-	5,415
Profit/(loss) before Income Tax, IFRS	250,336	434,550	(7,590)	(111,471)	565,826	-	565,826

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

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

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

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33 Operating Segments (continued)

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions and balances between operating segments	Consolidated for the year ended 31 December 2006
Depreciation and amortization, RSA	(34,131)	(12,685)	-	(2,208)	(49,023)	-	(49,023)
Uplift due to revaluation of property plant and equipment for IFRS	(61,070)	(29,548)	-	336	(90,282)	-	(90,282)
Depreciation and amortization, IFRS	(95,201)	(42,233)	-	(1,872)	(139,305)	-	(139,305)

Reconciliation of reportable segment finance Income and finance costs:

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions and balances between operating segments	Consolidated for the year ended 31 December 2007
Interest income, RSA	4,903	287	2,149	265	7,605	-	7,605
Discounting of long-term liabilities	2,692	9,831	8,256	5,844	26,622	-	26,622
Other income	-	-	826	-	826	-	826
Interest income, IFRS	7,595	10,118	11,230	6,109	35,053	-	35,053
Interest cost, RSA	(168,138)	(37,066)	(35,564)	(22)	(240,790)	-	(240,790)
Discounting of long-term liabilities	(4,685)	(673)	787	(163)	(4,733)	-	(4,733)
Intersegments transactions	5,676	17,825	7,443	22	30,967	-	30,967
Other expense	(54)	(12)	(71)	-	(137)	-	(137)
Interest cost, IFRS	(167,200)	(19,925)	(27,404)	(163)	(214,693)	-	(214,693)

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions and balances between operating segments	Consolidated for the year ended 31 December 2006
Interest income, RSA	6,786	101	-	633	7,520	-	7,520
Discounting of long-term liabilities	234	-	-	-	234	-	234
Intersegments transactions	(5,762)	-	-	-	(5,762)	-	(5,762)
Reclassification from Other Income	838	-	-	-	838	-	838
Transactions between operating segments	5,372	-	-	-	5,372	(5,372)	-
Interest income, IFRS	7,468	101	-	633	8,202	(5,372)	2,830
Interest cost, RSA	(70,187)	(14,297)	-	-	(84,484)	-	(84,484)
Discounting of long-term liabilities	(34,627)	-	-	-	(34,627)	-	(34,627)
Intersegments transactions	(88)	5,372	-	-	5,284	-	5,284
Reclassification to Other Expense	(290)	(232)	-	-	(522)	-	(522)
Transactions between operating segments	-	(5,372)	-	-	(5,372)	5,372	-
Interest cost, IFRS	(105,191)	(14,529)	-	-	(119,720)	5,372	(114,348)

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33 Operating Segments (continued)

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

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions and balances between operating segments	Consolidated for the year ended 31 December 2007
Total assets RSA	6,351,468	2,163,174	1,949,882	445,397	10,909,921	-	10,909,921
IFRS Adjustment							
tangible/intangible assets (FV)	364,405	384,887	617,670	(38)	1,366,924	-	1,366,924
Provision for obsolete inventories	(56,088)	(595)	(11,456)	(73)	(68,212)	-	(68,212)
Provision for doubtful trade and other receivables	(70,956)	(23,108)	(41,002)	-	(135,067)	-	(135,067)
Construction contracts	-	-	60,210	-	60,210	-	60,210
Leasing adjustment	2,529	12,201	66,165	-	80,895	-	80,895
Inventory adjustment	13,065	-	12,557	-	25,622	-	25,622
Cut-off (net off of AR, AP)	55,930	(1,099)	(79,565)	(135)	(24,869)	-	(24,869)
Deferred Tax adjustment	(710)	3,412	18,673	9,344	30,718	-	30,718
Elimination of Intercompany investments	(642,928)	(144,041)	-	(311,039)	(1,098,278)	-	(1,098,278)
Other adjustments	(43,066)	(49,075)	-	(3,540)	(96,311)	-	(96,311)
Intersegments transactions (IC AR, unrealized profit)	(1,304,749)	(139,813)	197,990	(53,724)	(1,300,296)	(10,914)	(1,311,210)
Other assets	-	-	-	-	58,474	-	58,474
Total assets IFRS	4,668,903	2,205,312	2,791,122	85,919	9,809,730	(10,914)	9,798,816

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Transactions and balances between operating segments	Consolidated for the year ended 31 December 2006
Total assets, RSA	3,378,711	954,556	546,367	316,036	5,195,670	-	5,195,670
Adjustment							
tangible/intangible assets (FV)	401,211	425,015	307,539	343	1,134,108	-	1,134,108
Provision for obsolete inventories and GAE	(10,357)	(5,880)	1,380	-	(14,857)	-	(14,857)
Provision for doubtful trade and other receivables	9,124	(17,871)	(5,601)	(821)	(15,168)	-	(15,168)
Deferred Tax adjustment	(5,876)	(8,379)	(93)	453	(13,895)	-	(13,895)
Adjustment of investments	(5,197)	6,697	(585)	(1,410)	(495)	-	(495)
Elimination of Intercompany investments	(430,833)	(64,053)	16,757	(285,873)	(764,002)	-	(764,002)
Intersegments transactions (IC AR, unrealized profit)	(464,242)	(6)	(374)	606	(464,016)	(8,863)	(472,879)
Other Adjustments	(20,366)	-	8,384	(1,324)	(13,306)	-	(13,306)
Other Assets	-	-	-	-	-	-	10,782
Total assets, IFRS	2,852,177	1,290,078	873,774	28,010	5,044,038	(8,863)	5,045,957

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

The major part of revenue relate to the customers, which account for less than 10% of total revenues each, and 79% of total revenues in aggregate. Revenues of approximately RR 2,802,166 (2006: 1,361,953) are derived from a few single external customers and presented below based on accounting records used to prepare IFRS financial statements.

Hydraulic Machines and Systems Group LLC
Notes to the Consolidated Financial Statements – 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

33 Operating Segments (continued)

	Industrial pumps	Oil and gas equipment	Oil and gas construction	Other unallocated	Consolidated revenue for the year ended 31 December 2007 including transactions between business segments
Revenue by major customers					
Revenues by counteragents without dividing by countries, Including	6,203,336	3,534,224	3,614,097	243,768	13,595,426
Ministry of Water Management of Iraq	988,950	-	-	-	988,950
ORION-STROY LLC	-	-	1,005,096	-	1,005,096
Gaspromneft OJSC	337,466	470,654	-	-	808,120
Other (less than 10% each, in aggregate less than 25% of the total revenues)	4,876,921	3,063,570	2,609,001	243,768	10,793,260

	Industrial pumps	Oil and gas equipment	Oil and gas construction	Other unallocated	Consolidated revenue for the year ended 31 December 2006, including transactions between business segments
Revenue by major customers					
Revenues by counteragents without breakdown by countries	4,819,459	2,063,911	-	106,681	6,990,051
TNK-BP Holding OJSC	307,172	590,578	-	-	897,750
Gaspromneft OJSC	153,938	310,265	-	-	464,203
Other (less than 10 % each, in total less than 25% of total revenue)	4,358,349	1,163,068	-	106,681	5,628,098

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

	Industrial pumps	Oil and gas equipment	Oil and gas construction	Other unallocated	Consolidated revenue for the year ended 31 December 2007, including transactions between business segments	Non-current Assets
Disclosures by segments						
Revenues by countries of buyers of products and services	6,203,336	3,534,224	3,614,097	243,768	13,595,426	3,588,724
Including						
Russia	4,376,453	3,455,913	3,614,097	238,843	11,685,306	3,220,324
Iraq	1,023,557	-	-	-	1,023,557	-
Ukraine	256,987	-	-	-	256,987	338,362
Kazakhstan	164,158	78,311	-	-	242,469	-
Turkmenistan	72,154	-	-	-	72,154	-
Belorussia	68,147	-	-	-	68,147	30,038
UAE	40,671	-	-	-	40,671	-
Uzbekistan	31,390	-	-	-	31,390	-
Azerbaijan	24,984	-	-	-	24,984	-
China	21,470	-	-	-	21,470	-
UK	21,226	-	-	-	21,226	-
Armenia	18,470	-	-	-	18,470	-
Kyrgyzstan	15,924	-	-	-	15,924	-
India	10,793	-	-	-	10,793	-
Bulgaria	10,410	-	-	-	10,410	-
Other (less than 10 % each, in total less than 25% of total revenue)	46,542	-	-	4,925	51,467	-

33 Operating Segments (continued)

Disclosures by segments	Industrial pumps	Oil and gas equipment	Oil and gas construction	Other unallocated	Consolidated revenue for the year ended 31 December 2006, including transacts between business segments	Non-current assets
Revenue by country of purchasers of products/services	4,819,459	2,063,911	-	106,681	6,990,051	2,017,901
Russia	3,990,144	1,999,499	-	102,979	6,092,622	1,844,622
Ukraine	192,462	-	-	3,702	196,164	173,279
Kazakhstan	127,284	64,412	-	-	191,696	-
Uzbekistan	76,853	-	-	-	76,853	-
Belorussia	74,647	-	-	-	74,647	-
UK	60,104	-	-	-	60,104	-
Azerbaijan	29,038	-	-	-	29,038	-
India	21,677	-	-	-	21,677	-
Tajikistan	17,145	-	-	-	17,145	-
USA	12,849	-	-	-	12,849	-
Iraq	11,036	-	-	-	11,036	-
Kyrgyzstan	5,153	-	-	-	5,153	-
Moldova	4,605	-	-	-	4,605	-
Mongolia	3,863	-	-	-	3,863	-
Latvia	3,616	-	-	-	3,616	-
UAE	3,163	-	-	-	3,163	-
Lithuania	3,054	-	-	-	3,054	-
Other (less than 10% each, in aggregate – less than 25% of total revenue)	182,766	-	-	-	182,766	-

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

34 Financial Risks

Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December 2007 and 2006, respectively:

In thousands of Russian Roubles	At 31 December 2007			At 31 December 2006		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
US Dollars	89,114	(100,272)	(11,158)	56,021	(155,787)	(99,766)
Euros	991,946	(945,006)	46,940	-	(13,131)	(13,131)
Total	1,081,060	(1,045,278)	35,782	56,021	(168,918)	(112,897)

34 Financial Risks (continued)

Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

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

	31 December 2007	31 December 2006
USD	24.5462	26.3311
EURO	35.9332	34.6965

At 31 December 2007, if the Russian Rouble (RR) had weakened/strengthened by 15% against the US dollar with all other variables held constant, post-tax profit for the year would have been RR 12,941 (2006: RR 16,110) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and borrowings.

At 31 December 2007, if the RR had weakened/strengthened by 15% against the EURO with all other variables held constant, post-tax profit for the year would have been RR 45,549 (2006: RR 1,959) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EURO-denominated trade receivables and borrowings.

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

(ii) Price risk

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

(iii) Interest rate risk

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

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

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

All other financial instruments are non-interest bearing.

(b) Credit risk

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

	2007	2006
Trade and other receivables (Note 13, 14)		
- Trade receivables	2,315,463	826,414
- Other financial receivables	252,128	95,588
Cash and cash equivalents (Note 11)		
- Bank balances	303,068	142,255
- Cash on hand	2,392	327
Total on-balance sheet exposure	2,873,052	1,064,257
Total maximum exposure to credit risk	2,873,052	1,064,257

34 Financial Risks (continued)

Financial risk factors (continued)

(b) Credit risk (continued)

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

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

Agency	Rating	31 December 2007	31 December 2006
Fitch***	B	212,827	89,577
Moody's*	Baa2	26,256	517
IC Rating****	B2	14,907	5,219
Moody's*	Ba1	12,919	6,760
Moody's*	Baa2	10,980	10,473
IC Rating****	B1	6,321	0
Fitch***	BB-	2,935	1,347
Moody's*	B1	2,546	12,906
S&P's**	B	1,925	94
IC Rating****	B1	1,232	10,662
Moody's*	Baa2	938	0
S&P's**	B+	270	0
S&P's**	BBB	82	0
Moody's*	Baa2	69	34
Other	-	11,254	4,993
Total		305,460	142,582

* International rating agency Moody's Investor Service

** International rating agency Standard & Poor's

*** International rating agency Fitch

****Information Center Rating

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

34 Financial Risks (continued)

Financial risk factors (continued)

(b) Credit risk (continued)

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

	2007		2006	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Total current and not impaired including:	2,240,939	262,867	833,771	132,323
Large enterprises	536,369	87,619	316,052	37,526
Middle and small size companies	609,443	151,480	427,935	54,926
Government organization and agencies	1,032,626	-	56,719	2,315
Scientific research institutes	16,595	-	-	11,470
Individuals	-	23,768	-	15,889
Other	45,906	-	33,065	10,197
<i>Past due but not impaired</i>				
- less than 60 days overdue	79,890	164	7,366	-
- 61 to 180 days overdue	13,844	505	220	-
- 181 to 365 days overdue	27,106	360	6,848	-
- over 360 days overdue	5,071	475	1,245	-
Total past due but not impaired	125,911	1,503	15,679	-
<i>Individually determined to be impaired (gross)</i>				
Current to be impaired	39,310	10,739	15,531	36,735
- less than 60 days overdue	424	164	82	-
- 61 to 180 days overdue	2,403	505	220	-
- 181 to 365 days overdue	4,945	360	5,992	-
- over 360 days overdue	4,305	475	1,211	-
Total individually impaired	51,387	12,242	23,036	36,735
Less impairment provision	51,387	12,242	23,036	36,735
Total	2,315,463	252,128	826,414	95,588

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

The amount exposed to credit risk relating to financial receivables (the carrying amount of trade and other accounts receivable less doubtful debt provision) as of 31 December 2007 is thousands of RR 2,567,591 (2006: thousands of RR 922,002).

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

Major customers	2007		2006	
	Sales	Trade receivable as at 31 December	Sales	Trade receivable as at 31 December
Industrial pumps				
Customer 1	988,950	990,185	-	-
Customer 2	337,466	129,863	153,938	41,993
Customer 3	-	-	307,172	6,384
Other	4,876,921	-	4,358,350	-
Oil and gas equipment				
Customer 4	470,654	21,850	310,265	-
Customer 5	-	-	590,578-	-
Other	3,063,570	-	1,163,067-	-
Oil and gas construction				
Customer 6	1,005,096	84,098	-	-
Other	2,609,001	-	-	-
Other unallocated				
Other	243,268	-	106,681	-
Total	13,595,426	1,225,997	6,990,051	48,377

34 Financial Risks (continued)

Financial risk factors (continued)

(b) Credit risk (continued)

Total aggregate amount of these balances is RR 1,225,997 (2006: RR 48,377) that represents 52% (2006: 6%) of total trade accounts receivable.

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

(c) Liquidity risk

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

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

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

Balance sheet item	Carrying amount as at 31 December 2006	Cash flows under the contract			
		Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank loans*	1,304,396	542,501	1,046,587	90,750	-
Finance lease liabilities*	6,098	4,784	2,363	237	-
Trade accounts payable	582,865	582,865	-	-	-
Other payables	117,167	110,553	7	6,607	-

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

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

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

The table below analyses credit lines of the Group as at 31 December 2007 and 31 December 2006:

	31 December 2007	31 December 2006
Credit line in Russian roubles (used)	3,538,824	1,399,254
Undrawn credit facilities	598,115	152,901

As of 31 December 2007 4.5% of the total outstanding short-term and long-term borrowings is denominated in foreign currency, approximately 90% is in USD and 10% is in UAH. (2006: 14% - approximately 81% is in USD, 4% is in Euros, and 15% is in UAH).

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

34 Financial Risks (continued)

Financial risk factors (continued)

(c) Liquidity risk (continued)

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

	31 December 2007	31 December 2006
Liquidity ratio	0.90	1.82
Current assets	6,152,381	3,018,279
Current liabilities	6,994,859	1,657,861

The gearing ratio increased in 2007 compared to 2006 due to additional borrowings and the acquisition of new businesses by the Group.

Management of capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for participants and benefits for other stakeholders and to reduce the cost of capital. For different borrowings taken by different companies banks provide different interest rates (Note 15). The Group manages total net assets attributable to participants as recognized under IFRS requirements.

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

The Group controls capital by calculating a Gearing ratio. This ratio is calculated as the net borrowing divided by total capital. The net borrowing includes all of the long-term and short-term borrowings carried on the Group's consolidated balance sheet less the cash and cash equivalents. The capital is calculated as the sum of net borrowings and net assets attributable to participants plus minority interest in the consolidated balance sheet. In 2007, the Group's strategy, which was unchanged from 2006, was to maintain the gearing ratio at the level not exceeding 100%.

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

	31 December 2007	31 December 2006
Long-term loans	52,631	947,587
Short-term loans	2,898,852	356,809
Total borrowings received	2,951,483	1,304,396
Cash	305,460	142,582
Net borrowing	2,646,023	1,161,814
Net assets attributable to participants	1,756,562	1,386,262
Minority interest	567,953	687,257
Total capital	4,970,538	3,235,333
Gearing ratio	53%	36%

Fair value of financial instruments

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

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

35 Subsequent Events

Business combinations

In March 2008 the Group acquired a 100% interest in Hydromash-Industria LLC, for a consideration of RR 10,324 paid in cash. The company's activity is selling of pumps and relating equipment. Management has commenced assessment of the fair values of the assets and liabilities acquired. The assessment was not completed at the time of finalising these financial statements.

	Attributed fair value determined provisionally
Cash and cash equivalents	634
Trading securities	2,019
Loans and advances to customers	861
Property, plant and equipment	128
Inventory	3,124
Other assets	58
Borrowings	(500)
Trade and other payables	(4,428)
Other liabilities	(786)
Net assets acquired	1,110
Goodwill and other intangible assets	9,214
Total purchase consideration	10,324
Less: cash and cash equivalents of subsidiary acquired	(634)
Cash outflow on acquisition	9,690

In March 2008 the Group also acquired 30% interest in Engineering-production firm Sibnfteavtomatika OJSC for RR 50,850 paid in cash. The Group's share within associated net assets as at acquisition date was RR 43,005.

In May 2008 the Company's participants contributed a 100% interest in Hydromashkomplekt LLC to the Company in exchange for the additional equity units issued by the Company. As a result of this transaction, the charter capital of the Company has increased to RR 591,180. The acquired company owns a number of buildings which are leased to Group companies under operating lease. As the company has no other activities, this transaction is considered by management as acquisition of assets.

In June 2008 the Group contributed RR 966 to a new formed HMS-Promburvod CJSC in exchange for 51% interest. This entity will be a trading company for the Group's pumping equipment and spare parts.

Acquisitions of non-controlling interest in subsidiaries

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

Company name	Interest acquired, %	Cost, RR	Date of acquisition	Notes
Sibkomplektmontazhnaladka Trust OJSC	1%	1,419	February 2008	Paid in cash
Tomskgazstroy OJSC	1%	3,832	April 2008	Paid in cash
Tomskgazstroy OJSC (preference shares)	13.1%	20,000	June 2008	Paid in cash
Sibkomplektmontazhnaladka Trust OJSC	0.14%	160	August 2008	Paid in cash
Tomskgazstroy OJSC	2%	4,273	August 2008	Paid in cash

As a result of the above mentioned transactions the Group's interest in Tomskgazstroy OJSC increased from 50.7% as at 31 December 2007 to 66.8% by the end of August 2008.

Reorganization of the Company. In 2008 the Company's participants decided to reorganize the Company into an open joint-stock company named HMS Group OJSC. The interests held by the Company's participants of RR 591,180 shall be exchanged to 1,182,361,300 ordinary shares of RR 0.5 par value each, and the ownership ratios of the participants will remain intact. On 29 August 2008 the Company completed this reorganization.

Borrowings. Subsequent to the balance sheet date the Group's subsidiaries received short-term loans in the amount of RR 1,444,193 and long-term loans in the amount of RR 73,835 from three banks. These loans are secured by the Group guarantees. The short-term loans mature in April-August 2009 and bear the interest rates of 12%. Long-term loan bears interest rate of 10.75% and payable in September 2009.

Redemption of bonds. In May 2008 the bond holders claimed redemption of bonds for RR 846,955 (Note 15). The payment was executed in June 2008. The remaining balance of bonds (RR 153,046) is payable in November 2009. The bond interest rate remained unchanged.

Dividends. During 2008 the Group subsidiaries declared dividends to minority holders in the amount of RR 282,914.