OJSC Power Machines and subsidiaries

Consolidated financial statements
For the Year Ended December 31, 2010

OAO POWER MACHINES AND SUBSIDIARIES

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Independent Auditors' Report

Management Board of OJSC Power machines:

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Power Machines and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2010 and the consolidated income statement and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matter

The consolidated financial statements of the Group as at and for the year ended December 31, 2009 were audited by other auditors whose report dated March 26, 2010 expressed an unmodified opinion on those statements.

ZAO KPMG

ZAO KPMG
March 15, 2011

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2010
(Tabular amounts in thousands of US dollars unless otherwise stated)

	Note	2010	2009
Revenue	4	1 674 621	1 852 633
Cost of sales		(1 183 203)	(1 380 610)
Gross profit		**491 418**	**472 023**
Distribution expenses		(75 892)	(103 378)
Administrative expenses		(85 715)	(108 954)
Other taxes and contributions		(13 851)	(8 789)
Other income		11 570	4 208
Other expenses		(24 257)	(10 391)
Profit from operations		**303 273**	**244 719**
Share of profit of equity accounted investees (net of income tax)		3 681	(4 623)
Profit before financing and taxation		**306 954**	**240 096**
Financial income	6	11 898	12 419
Financial expenses	6	(18 044)	(20 304)
Net foreign exchange losses		(495)	(545)
Profit before income tax		**300 312**	**231 666**
Income tax expense	7	(44 657)	(38 385)
Profit for the year		**255 655**	**193 281**
Attributable to:			
shareholders of OJSC Power Machines		246 876	185 984
non-controlling interests		8 779	7 297
		255 655	**193 281**
Weighted average number of shares outstanding during the year		8 708 938 708	8 708 938 708
Basic and diluted earnings per share (US dollars)		0,0283	0,0214

These consolidated financial statements were approved by the Management Board on March 15, 2011 and signed on its behalf by:

Igor Y. Kostin
General Director

Vadim K. Chechnev
Chief Financial Officer

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010
(Tabular amounts in thousands of US dollars unless otherwise stated)

	2010	2009
Profit for the year	**255 655**	**193 281**
Other comprehensive income		
Currency translation differences	(4 470)	191
Total comprehensive income for the year	**251 185**	**193 472**
Attributable to:		
shareholders of OJSC Power Machines	243 361	187 875
non-controlling interests	7 824	5 597
	251 185	**193 472**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED STATEMENT ON FINANCIAL POSITION AS AT DECEMBER 31, 2010
(Tabular amounts in thousands of US dollars unless otherwise stated)

	Note	2010	2009
Assets			
Current assets			
Cash and cash equivalents	14	521 346	323 689
Short-term bank deposit		100 627	5 088
Trade accounts receivable	12	229 823	267 103
Amounts due from customers under construction contracts	8	973 995	908 645
Advances paid to suppliers		159 363	227 346
Advances paid to related parties		9 667	19 363
Inventories	11	168 614	217 034
VAT recoverable		79 054	67 731
Other current assets	13	32 843	28 450
Total current assets		**2 275 332**	**2 064 449**
Non-current assets			
Property, plant and equipment	9	475 329	423 560
Goodwill		3 689	3 717
Other intangible assets	10	43 655	33 723
Deferred tax assets	7	39 886	32 748
Trade accounts receivable	12	41 808	70 592
Other assets	13	8 114	2 319
Total non-current assets		**612 481**	**566 659**
Total assets		**2 887 813**	**2 631 108**
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable	18	108 728	130 271
Amounts due to customers under construction contracts	8	20 935	24 582
Trade and other accounts payable to related parties	19	18 582	26 892
Advances received from customers	17	1 786 165	1 730 042
Debt finance	16	24 112	44 641
Other taxes and social security payable		17 648	15 788
Provisions for contingencies	21	137 810	143 383
Other liabilities	20	65 944	48 996
Total current liabilities		**2 179 924**	**2 164 595**
Non-current liabilities:			
Debt finance	16	14 994	26 041
Deferred tax liabilities	7	11 096	10 764
Other liabilities	20	2 515	1 609
Total non-current liabilities		**28 605**	**38 414**
Total liabilities		**2 208 529**	**2 203 009**
Equity:			
Share capital	15	11 141	11 141
Additional paid-in capital		400 025	399 877
Foreign currency translation reserve		25 543	29 058
Retained earnings		184 771	(62 105)
Total equity attributable to the Company's shareholders		**621 480**	**377 971**
Non-controlling interests		57 804	50 128
Total equity		**679 284**	**428 099**
Total equity and liabilities		**2 887 813**	**2 631 108**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Tabular amounts in thousands of US dollars unless otherwise stated)

	2010	2009 reclassified
Cash flows from operating activities		
Profit before financing and taxation	306 954	240 096
Adjustments for:		
Depreciation and amortization	57 855	48 303
Change in provision for doubtful trade and other accounts receivable	(1 265)	12 390
Change in provision for obsolete inventories	4 145	30 932
Change in provisions for contingencies	(4 714)	(33 009)
Share of profit of equity accounted investees (net of income tax)	(3 681)	4 623
Other	(3 093)	6 925
Operating profit before changes in working capital, and provisions	**356 201**	**310 260**
Changes in operating assets and liabilities		
Inventories	41 921	(57 938)
Amounts due from customers	(97 890)	(189 164)
Trade accounts receivable	47 231	(148 034)
Advances paid to suppliers	64 832	75 121
Advances paid to related parties	9 753	71 146
VAT recoverable	(11 322)	7 397
Trade accounts payable	(22 603)	36 665
Amounts due to customers under construction contracts	(4 111)	8 424
Trade and other accounts payable to related parties	(8 648)	18 519
Advances received from customers	84 470	114 457
Other taxes and social security payable	1 609	1 973
Other operating assets and liabilities	27 077	(20 046)
Cash flows from operations before income tax and interest paid	**488 520**	**228 780**
Interest paid	(14 147)	(6 784)
Income tax paid	(42 067)	(53 349)
Cash flows generated by operating activities	**432 306**	**168 647**
Investing activities:		
Additions to property, plant and equipment and intangible assets	(126 356)	(100 726)
Net cash flow from deposits	(98 525)	(5 154)
Proceeds from disposal of property, plant and equipment and other assets	10 050	941
Interest received	6 335	10 693
Cash flows used in investing activities	**(208 496)**	**(94 246)**
Financing activities:		
Proceeds from debt finance	32 993	220 760
Repayment of debt finance	(64 276)	(280 435)
Acquisition of non-controlling interests	-	(4 500)
Cash flows used in financing activities	**(31 283)**	**(64 175)**
Net increase in cash and cash equivalents	192 527	10 226
Effect of exchange rates on cash and cash equivalents	5 130	(14 818)
Cash and cash equivalents at beginning of the year	323 689	328 281
Cash and cash equivalents at end of the year	**521 346**	**323 689**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010
(Tabular amounts in thousands of US dollars unless otherwise stated)

	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total equity attributable to the Company's shareholders	Non-controlling interests	Total equity
Balances at January 1, 2009	**11 141**	**393 358**	**27 167**	**(248 089)**	**183 577**	**55 550**	**239 127**
Total comprehensive income for the year							
Profit for the year	-	-	-	185 984	185 984	7 297	193 281
Foreign currency translation differences	-	-	1 891	-	1 891	(1 700)	191
Total comprehensive income for the year	-	-	1 891	185 984	187 875	5 597	193 472
Transactions with owners recorded directly in equity							
Buy out of non-controlling interests	-	6 519	-	-	6 519	(11 019)	(4 500)
Balances at December 31, 2009	**11 141**	**399 877**	**29 058**	**(62 105)**	**377 971**	**50 128**	**428 099**
Total comprehensive income for the year							
Profit for the year	-	-	-	246 876	246 876	8 779	255 655
Foreign currency translation differences	-	-	(3 515)	-	(3 515)	(955)	(4 470)
Total comprehensive income for the year	-	-	(3 515)	246 876	243 361	7 824	251 185
Transactions with owners recorded directly in equity							
Dilution of non-controlling interests (note 25)	-	148	-	-	148	(148)	-
Balances at December 31, 2010	**11 141**	**400 025**	**25 543**	**184 771**	**621 480**	**57 804**	**679 284**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

1. ORGANISATION AND OPERATIONS

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

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

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

2. BASIS OF PREPARATION

Statement of compliance

The financial statements of the Parent Company are prepared in accordance with the legislative requirements of the Russian Federation. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), under the historical cost convention. The Group's statutory financial records are maintained in accordance with the legislative requirements of the countries in which the individual entities are located, which differ in certain respects from IFRS. Consequently, those statutory financial statements have been restated according to International Financial Reporting Standards for the purpose of preparing these consolidated financial statements. The accounting policies consistently applied in the preparation of these consolidated financial statements are set out in note 3, except as explained under "Adoption of new and revised IFRS" which addresses changes in accounting policies.

Functional and presentation currency

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

Transactions in currencies other than the entities' functional currency (foreign currencies) are translated at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated to the functional currency at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

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

- All assets and liabilities are translated at closing exchange rates at the dates of each statement of financial position presented;
- All income and expenses in each income statement are translated at the average exchange rates for the periods presented that approximate the actual exchange rates existing at the dates of the transactions; and
- All resulting exchange differences are recognised as a separate component in other comprehensive income.

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

Current assets and liabilities

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

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

Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

- Note 8 – accounting for construction contracts;
- Note 9 – useful lives of property, plant and equipment;
- Note 10 – useful lives of intangible assets;
- Note 11 – provision for obsolete inventories;

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

- Note 12 – impairment of trade accounts receivable;
- Note 21 – provisions for contingencies;
- Note 24 – commitments and contingencies.

Statement of cash flows

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

Prior year reclassifications

Certain comparative information, presented in the consolidated financial statements for the year ended December 31, 2009 has been reclassified. Reclassifications were based upon management's decision to enhance disclosure of the Group's results of operations through better presentation of certain types of income and expenses on the face of the consolidated. The effect of reclassifications is presented below:

	Before reclassification	After reclassification	Difference
Cost of sales	(1 378 776)	(1 380 610)	(1 834)
Administrative expenses	(96 871)	(108 954)	(12 083)
Other operating expenses	(25 006)	(10 391)	14 615
Other operating income	4 906	4 208	(698)
			-

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied in the preparation of these consolidated financial statements throughout the Group, except as explained in note 2 Basis for preparation which addresses changes in accounting policies.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled, directly or indirectly, by the Parent Company. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases. The non-controlling interest represents the proportion of the net identifiable assets of the subsidiaries that are not attributable to the shareholders of the Parent Company. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Associates

Associated companies are those enterprises in which the Group has significant influence, but does not have control over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. The consolidated financial statements include the Group's share of the total recognised gains and losses of associated companies accounted for using the equity method, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associated company, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associated company.

Transactions eliminated on consolidation

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

Property, plant and equipment

Owned assets

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

Property, plant and equipment is stated at cost, as above, less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

Subsequent expenditure

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

Depreciation

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

- Buildings 30 - 90 years;
- Machinery and equipment 15 - 30 years;

- Transportation equipment 5 - 18 years;
- Other property and equipment 4 - 25 years.

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

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Intangible assets

Goodwill

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

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

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

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

Research and development

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

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

Other intangible assets

Other intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation (refer below) and impairment losses (refer to accounting policy below). Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense when incurred.

Amortisation

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

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

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Financial assets

Financial assets include cash and cash equivalents, investments and loans and receivables and are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Loans and receivables are initially recognized on the date that they are originated. Financial assets initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

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

Effective interest method

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

Loans and other receivables

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

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

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

Impairment of financial assets

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

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

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

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

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

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed.

Derecognition of financial assets

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

Inventories

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

Cash and cash equivalents

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

Impairment

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

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

Calculation of recoverable amount

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

Financial liabilities

The Group initially recognizes financial liabilities on the date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

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

Leases

Finance leases

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

Operating leases

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

Employee benefits

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

Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Warranties

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

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Government grants

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

Revenue

Goods sold and services rendered

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

Construction contracts

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

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

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

All revenue is stated net of taxes and discounts.

Expenses

Agents' fees

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

Social costs

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

Finance income and costs

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

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

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

Income tax

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

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

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

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

Deferred tax is not recognized in respect of the following:

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

Earnings/(loss) per share

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

Segment reporting

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

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

The Management Board assesses the performance of the operating segment based on measures for sales, net profit, segment assets and segment liabilities and other information are consistent with that in the consolidated financial statements.
The accounting policies used for the segment are the same as accounting policies applied for the consolidated financial statements.

The segment information as at and for the year ended 31 December 2010 is as follows:

'000 RUB	**2010**	**2009**
Revenue	1 674 621	1 852 633
Net profit	255 655	193 281
Segment assets	2 887 813	2 631 108
Capital expenditures	126 356	100 726
Segment liabilities	2 208 629	2 203 009

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

Adoption of new and revised IFRS

A number of new Standards, amendments to Standards and Interpretations were adopted for the year ended December 31, 2010, and have been applied in these consolidated financial statements.

The adoption of the pronouncements did not have a significant impact on the Group's consolidated financial statements except for those discussed below.

Change in presentation of the statement of cash flows

The Group applied amended IAS 7 *Statement of Cash Flows,* which became effective for annual periods beginning on or after July 1, 2009. The amendments require presentation of the cash outflows on acquisitions of non-controlling interests as financing activities in the statement of cash flows. The amendments were applied retrospectively to all periods presented.

New accounting pronouncements

At the date of approval of the Group's consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

Standards and Interpretations	**Effective for annual periods beginning on or after**
IAS 1 (Amended) "Presentation of Financial Statements"	January 1, 2011
IAS 12 (Amended) "Income taxes"	January 1, 2012
IAS 24 (Revised) "Related party disclosure"	January 1, 2011
IAS 27 (Amended) "Consolidated and Separate Financial Statements"	July 1, 2010
IAS 32 (Amended) "Financial instruments: Presentation"	February 1, 2011
IAS 34 (Amended) "Interim financial reporting"	January 1, 2011
IFRS 1 (Revised, amended) "First-time Adoption of International Financial Reporting Standards"	July 1, 2010, January 1, 2011 and July 1, 2011
IFRS 3 (Revised) "Business Combinations"	July 1, 2010
IFRS 7 (Amended) "Financial instruments: disclosures"	January 1, 2011 and July 1, 2011
IFRS 8 (Amended) "Operating Segments"	January 1, 2010
IFRS 9 "Financial instruments"	January 1, 2013
IFRIC 13 (Amended) "Customer Loyalty Programmes"	January 1, 2011
IFRIC 14 (Amended) "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"	January 1, 2011
IFRIC 19 "Extinguishing financial liabilities with equity"	July 1, 2010

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

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

4. REVENUE

	2010	2009
Income from:		
Construction contract revenue	1 076 731	1 202 951
Sales of goods	495 595	568 913
Rendering services	72 114	62 212
Other	30 181	18 557
	1 674 621	**1 852 633**

	2010	2009
Russia	1 372 986	1 473 245
Europe	109 424	143 754
Central and South America	91 779	76 531
China and Central Asia	44 860	16 456
India	39 058	124 403
South-East Asia	3 349	10 756
Other	13 165	7 488
	1 674 621	**1 852 633**

5. STAFF COSTS

	2010	2009
Wages, salaries and related taxes included in:		
cost of sales	190 761	165 678
administrative expenses	46 920	53 958
distribution costs	24 073	25 462
	261 754	**245 098**

Included in the above employment costs are amounts paid to key management personnel during the year of US$ 11.4 million (2009: US$ 6.0 million). Key management personnel does not receive any benefits not also available to other employees of the Group.

The average number of employees for the year ended December 31, 2010 was 16,277 (2009: 18,061).

6. FINANCIAL INCOME AND EXPENSES

	2010	2009
Financial income		
Interest income	11 898	12 419
	11 898	**12 419**
Financial expenses		
Interest expense	7 025	7 403
Bank guarantee expenses	9 037	8 380
Bank charges	1 982	4 521
	18 044	**20 304**

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

7. INCOME TAX EXPENSE

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

	2010	2009
Current tax expense	51 235	53 220
Deferred tax (benefit)/expense	(6 578)	(14 835)
	44 657	**38 385**

The taxation charge for the year is different from that which would be obtained by applying the Parent Company's statutory income tax rate of 20% to the profit before income tax. Below is a reconciliation of theoretical income tax at statutory rate to the actual expense/(benefit) recorded in the Group's consolidated income statement:

Profit before income taxes	300 312	231 666
Income tax benefit using corporate tax rate 20%	60 063	46 333
Non-deductible expenses	7 713	2 973
Non-taxable income	(793)	(201)
Change in non-recognized deferred tax assets	(14 632)	(2 148)
Effect of tax concessions	(7 694)	(8 572)
Tax expense	**44 657**	**38 385**

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

	2010	2009
Deferred tax assets		
Provisions	24 385	25 443
Inventories	30 437	24 262
Trade and other accounts payable	5 841	15 599
Investments	-	740
	60 663	**66 044**
Less: non-recognized deferred tax assets	-	(16 217)
Less: offset against deferred tax liabilities	(20 777)	(17 079)
	39 886	**32 748**
Deferred tax liabilities		
Property, plant and equipment	(22 326)	(20 661)
Intangible assets	(4 560)	(4 356)
Investments	(679)	-
Trade and other accounts receivable	(4 308)	(2 826)
	(31 873)	**(27 843)**
Less: offset against deferred tax assets	20 777	17 079
	(11 096)	**(10 764)**
Net deferred tax assets	**28 790**	**21 984**

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

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

	2010	**2009**
Opening balance	21 984	7 765
Benefit recognised during the year	6 578	14 835
Foreign exchange gains/(losses)	228	(616)
Closing balance	**28 790**	**21 984**

Taxable differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to US$ 22.5 million at December 31, 2010 (December 31, 2009: US$ 7.5 million).

8. CONSTRUCTION CONTRACTS

Contracts in progress at the reporting date:

	2010	**2009**
Construction costs incurred plus recognized profits less recognized losses	3 670 067	3 076 101
Less: progress billings	(2 717 007)	(2 192 038)
	953 060	**884 063**

Recognised and included in the financial statements as amounts due:

	2010	**2009**
From customers under construction contracts	973 995	908 645
To customers under construction contracts	(20 935)	(24 582)
	953 060	**884 063**

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

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

9. PROPERTY, PLANT AND EQUIPMENT

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

	Land and buildings	Machinery and equipment	Transportation equipment	Other	Assets under construction	Total
Cost/Deemed cost						
At January 1, 2009	**425 704**	**773 712**	**17 918**	**60 426**	**39 129**	**1 316 889**
Additions	455	20 865	228		69 537	91 085
Transfers	3 354	44 932	234	7 871	(56 391)	(0)
Disposals	(116)	(9 053)	(2 603)	(1 676)	(3 290)	(16 737)
Foreign currency translation difference	(12 142)	(19 900)	(545)	(1 893)	767	(33 712)
At December 31, 2009	**417 255**	**810 557**	**15 233**	**64 728**	**49 752**	**1 357 524**
Additions	-	406	456	145	107 525	108 532
Transfers	5 973	40 698	369	9 090	(56 129)	0
Disposals	(1 911)	(7 125)	(1 227)	(1 392)	(1 300)	(12 956)
Foreign currency translation difference	(2 989)	(6 312)	(60)	(494)	(432)	(10 288)
At December 31, 2010	**418 327**	**838 223**	**14 770**	**72 077**	**99 414**	**1 442 813**
Depreciation						
At January 1, 2009	**(274 285)**	**(602 836)**	**(13 905)**	**(37 253)**	**-**	**(928 279)**
Charge for the year	(6 093)	(28 842)	(1 206)	(6 492)	-	(42 633)
Disposals	44	8 172	2 175	1 484	-	11 876
Foreign currency translation difference	7 321	16 197	445	1 108	-	25 071
At December 31, 2009	**(273 013)**	**(607 309)**	**(12 491)**	**(41 152)**	**-**	**(933 965)**
Charge for the year	(6 446)	(34 053)	(1 273)	(8 393)	-	(50 165)
Disposals	323	6 581	1 115	1 268	-	9 287
Foreign currency translation difference	2 096	4 871	52	338	-	7 357
At December 31, 2010	**(277 039)**	**(629 910)**	**(12 598)**	**(47 938)**	**-**	**(967 485)**
Net book value						
At January 1, 2009	**151 419**	**170 876**	**4 013**	**23 173**	**39 129**	**388 610**
At December 31, 2009	**144 242**	**203 248**	**2 742**	**23 576**	**49 752**	**423 560**
At December 31, 2010	**141 288**	**208 314**	**2 173**	**24 139**	**99 414**	**475 328**

Within the category “Land and buildings” above the carrying value of land is US$ 8.3 million (2009: US$ 3.9 million).

At the reporting date property, plant and equipment with a carrying amount of US$ 34.4 million (2009: US$ 45.6 million) have been pledged to secure borrowings of the Group (see note 16).

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

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

Leased machinery

The Group leases production equipment and vehicles under a number of finance lease agreements. As at December 31, 2010 the net carrying amount of leased machinery and transportation equipment was US$ 4.7 million (2009: US$ 5.5 million).

10. INTANGIBLE ASSETS

The movements in intangible assets are as follows:

	Development projects		Other intangible	
	Completed	In progress	assets	Total
Cost				
At January 1, 2009	**23 486**	**14 286**	**15 568**	**53 340**
Additions	965	5 750	4 268	10 983
Transfers	2 549	(2 889)	340	-
Disposals	(5 954)	(652)	(711)	(7 317)
Foreign currency translation difference	(799)	(315)	(278)	(1 392)
At December 31, 2009	**20 247**	**16 180**	**19 187**	**55 614**
Additions	4 442	9 109	4 413	17 964
Transfers	298	(310)	12	(0)
Disposals	-	(219)	(1 309)	(1 527)
Foreign currency translation difference	10	(330)	(138)	(458)
At December 31, 2010	**24 996**	**24 431**	**22 165**	**71 592**
Amortization				
At January 1, 2009	**(15 813)**	**-**	**(7 585)**	**(23 398)**
Charge for the year	(3 316)	-	(2 354)	(5 670)
Disposals	5 954	-	639	6 593
Foreign currency translation difference	583	-	1	584
At December 31, 2009	**(12 592)**	**-**	**(9 299)**	**(21 891)**
Charge for the year	(4 786)	-	(2 904)	(7 690)
Disposals	-	-	1 554	1 554
Foreign currency translation difference	119	-	(29)	89
At December 31, 2010	**(17 259)**	**-**	**(10 678)**	**(27 937)**
Net book value				
At January 1, 2009	**7 673**	**14 286**	**7 983**	**29 942**
At December 31, 2009	**7 655**	**16 180**	**9 888**	**33 723**
At December 31, 2010	**7 737**	**24 431**	**11 486**	**43 655**

The total amount of research and development expenditure recognised as an expense during 2010 was US$ 0.1 million (2009: US$ 0.5 million).

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

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

11. INVENTORIES

	2010	2009
Raw materials and consumables	87 509	79 897
Work in progress	63 365	61 584
Finished goods and goods for resale	76 609	114 611
Supplies	5 835	23 033
	233 318	279 125
Provision for obsolete inventories	(64 704)	(62 091)
	168 614	**217 034**

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

The movement in the inventory obsolescence provision was:

	2 010	2 009
Opening balance	(62 091)	(33 812)
Change in provision recognized in income statement	(4 145)	(30 932)
Amounts written off against provisions	1 084	3 048
Foreign exchange difference	448	(395)
Closing balance	**(64 704)**	**(62 091)**

Cost of inventories recognised as an expense during 2010 was US$ 811.1 million (2009: US$ 1,075.6 million).

12. TRADE ACCOUNTS RECEIVABLE

	2010	2009
Current trade accounts receivable, net		
Contract retentions billed to customers	121 893	87 232
Other trade accounts receivable	119 513	193 447
Impairment provision for doubtful trade accounts receivable	(11 583)	(13 576)
	229 823	**267 103**
Non-current trade accounts receivable, net		
Contract retentions billed to customers	30 390	50 856
Other trade accounts receivable	11 418	19 736
	41 808	**70 592**
Net total trade accounts receivable	**271 631**	**337 695**

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

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

As discussed in note 24, as a result of recent economic turmoil in capital and credit markets globally, and the consequential economic uncertainties existing at December 31, 2010, there exists the potential that assets may be not recovered at their carrying amount in the ordinary course of business. The recoverability of accounts receivable depends to a large extent on the efficacy of the fiscal and other measures as well as other actions, beyond the Group's control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the Group's accounts receivable is determined based on conditions prevailing at December 31, 2010.

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

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

	2010	2009
Opening balance	(13 576)	(4 800)
Change in provision recognized in income statement	1 265	(9 337)
Amounts written off against provisions	1 191	812
Foreign exchange difference	(463)	(251)
Closing balance	**(11 583)**	**(13 576)**

Trade accounts receivable are denominated in the following currencies:

	2010	2009
Roubles	110 901	186 647
US dollars	106 608	98 546
Euros	42 266	43 785
Other	11 856	8 717
	271 631	**337 695**

Net trade accounts receivable are split by nature of counterparty as follows:

Due from end-user customers	Number of customers		Total receivables	
	2010	2009	2010	2009
0-10,000	357	244	113 610	97 224
10,000-20,000	8	8	110 144	119 355
20,000-100,000	2	4	47 876	121 116
			271 631	**337 695**

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

Region	Number of customers		Total receivables	
	2010	2009	2010	2009
Russia	11	9	114 509	186 708
India	3	1	53 676	21 107
Vietnam	1	1	18 823	21 197
China	1	-	7 127	-
Croatia	1	-	6 663	-
Greece	1	-	5 220	-
Mexico	1	-	4 563	-
Iran	1	-	3 974	-
Finland	1	-	3 931	-
Serbia	-	1	-	11 459
Other (0-10,000 kUSD)	346	244	53 144	97 224
			271 631	**337 695**

No material amounts receivable were negotiated such that they were not past due as at the reporting date. Included in the Group's trade accounts receivable at the reporting date are debtors which are past due at the reporting date for which the Group has not provided because there has not been any significant change in credit quality and the amounts are still considered recoverable.
The Group does not hold any collateral against these outstanding balances. Impairment provisions are made when management is aware of specific problems with recovery of amounts due.

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

	2010		2009	
	Gross	Impairment	Gross	Impairment
Not past due	197 029	(3 646)	299 397	(3 775)
Past due 0-30 days	2 497	-	8 669	(1)
Past due 31-90 days	5 451	-	7 474	-
Past due 91-180 days	19 204	(259)	13 313	(140)
Past due 181-365 days	42 639	(2 417)	13 170	(4 793)
Past due more than 365 days	16 394	(5 261)	9 248	(4 867)
	283 214	**(11 583)**	**351 271**	**(13 576)**

The Group exposure to credit and currency risks related to trade and other receivables is disclosed in note 22.

13. OTHER ASSETS

	2010	2009
Other receivables	29 248	15 735
Less provision for other receivables	(673)	(2 033)
	28 575	**13 702**
Deferred expenses	12 382	17 067
	40 957	**30 769**

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

The Group exposure to credit and currency risks related to other assets is disclosed in note 22.

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

14. CASH AND CASH EQUIVALENTS

	2010	2009
Bank accounts	161 297	91 153
Bank deposits	360 049	232 536
	521 346	**323 689**

Cash and cash equivalents are denominated in the following currencies:

	2010	2009
Roubles	420 903	173 131
US dollars	69 765	54 972
Euros	25 788	91 810
Other	4 890	3 776
	521 346	**323 689**

The Group only places deposits and maintain cash balances with major banks with a strong credit rating. The Group does not expect any counterparty to faul to meet its obligations.

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

The Group exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 22.

15. EQUITY

Share capital

Number of ordinary shares	**2010**	**2009**
On issue at beginning of year	8,708,938,708	8,708,938,708
On issue at end of year	**8,708,938,708**	**8,708,938,708**

At the reporting date the Parent Company's authorised share capital comprised 9,359,450,000 ordinary shares (2009: 9,359,450,000) of which 8,708,938,708 ordinary shares (2009: 8,708,938,708 ordinary shares) were issued and fully paid. All shares have a par value of RUB 0.01 (2009: RUB 0.01). All shares carry equal voting and distribution rights.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There are no regulations applicable to the Group's capital structure apart from those mandated by legislation. Management regularly monitors profitability, leverage ratios, compliance with debt finance covenants and dividend levels. This monitoring uses the return on assets ratio (being profit from operations divided by total assets) and the leverage ratio (being total debt finance, less cash and cash equivalents divided by shareholders' equity). There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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

Additional paid-in capital

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

Foreign currency translation reserve

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

	Statement of financial position		Income statement	
	2010	2009	2010	2009
Rouble	30.4769	30.2442	30.3690	31.7364
Indian Rupees	44.8100	46.6800	45.7311	48.4219
Euro	0.7556	0.6971	0.7537	0.7190

Dividends

During the year, the Parent Company did not pay any dividends. The maximum dividend payable is limited to retained earnings of the Parent Company as determined in accordance with the legislation of the Russian Federation. At the reporting date, reserves available for distribution in accordance with the legislation of the Russian Federation amounted to US$ 492.9 million (2009: US$ 277.3 million).

As disclosed in note 16, certain of the Group's loan covenants currently restrict the payment of dividends.

16. DEBT FINANCE

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

	2010	2009
Bank finance:		
-secured	19 496	58 685
-unsecured	19 152	9 967
Finance lease liability	458	2 030
	39 106	**70 682**

Maturity analysis of debt finance is as follows:

	2010	2009
Within one year	24 112	44 641
Between one and five years	14 994	24 918
After more than five years	-	1 123
	39 106	**70 682**

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

Debt finance is denominated in the following currencies:

	2010	**2009**
Roubles	24 115	21 797
US dollars	12 752	43 643
Euros	2 239	5 242
	39 106	**70 682**

For more information about the Group's exposure to interest rate, foreign currency and liquidity risk see note 22.

At the reporting date, debt finance carries either fixed interest rates of between 7.1% and 11.5% per annum or floating rates of Libor plus spreads of between 4.7% and 5.2% per annum. The carrying value of debt finance approximates to its fair value.

At the reporting date the Group had US$ 156.5 million (December 31, 2009: US$ 51.6 million) of unused credit lines available to it.

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

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

	2010	**2009**
Inventories and amounts due from customers under construction contracts	66 435	-
Revenue from planned supply of equipment in the future	12 727	38 182
Property, plant and equipment	34 384	45 566
	113 546	**83 748**

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

	2010	**2009**
Pledged in respect of debt finance	27 031	82 106
Pledged in respect of bank guarantees received	86 515	1 642
	113 546	**83 748**

17. ADVANCES RECEIVED FROM CUSTOMERS

	2010	**2009**
In respect of constructions in progress	1 590 086	1 441 483
Other advances	196 079	288 558
	1 786 165	**1 730 042**

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

18. TRADE ACCOUNTS PAYABLE

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

Trade accounts payable are denominated in the following currencies:

	2010	2009
Roubles	62 294	34 575
US dollars	17 573	61 032
Euros	17 542	16 512
Other	11 319	18 152
	108 728	**130 271**

The Group exposure to liquidity and currency risks related to trade accounts payable is disclosed in note 22.

19. TRADE AND OTHER PAYABLES TO RELATED PARTIES

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

	2010	2009
Advances received from customers	944	859
Trade and other payables	17 638	26 033
	18 582	**26 892**

The amount of purchases from related parties is as follows:

	2010	2009
Purchases of goods	115 213	303 346
Purchases of services	18 078	14 485
Purchases of services, relalated to construction in progress	660	10 129
	133 951	**327 960**

All transactions with related parties were entered into on an arm’s length basis. Trade balances are settled on normal trading terms.

The Group exposure to liquidity and currency risks related to trade and other payables to related parties is disclosed in note 22.

20. OTHER LIABILITIES

	2010	2009
Employee related liabilities	31 626	36 368
Other liabilities	36 833	14 237
	68 459	**50 605**

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

Maturity analysis:

	2010	2009
Within one year	65 944	48 996
Between one and five years	2 515	1 609
	68 459	**50 605**

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

The Group exposure to liquidity and currency risks related to other liabilities is disclosed in note 22.

21. PROVISIONS FOR CONTINGENCIES

	Provisions for warranties	Provisions for onerous contracts	Total
Balance at January 1, 2009	5 199	176 826	182 025
Provisions made during the year	2 936	23 633	26 569
Provisions used during the year	(758)	(23 082)	(23 840)
Provision released during the year	-	(35 738)	(35 738)
Foreign currency translation difference	(61)	(5 572)	(5 633)
Balance at December 31, 2009	**7 316**	**136 067**	**143 383**
Provisions made during the year	2 649	26 127	28 776
Provisions used during the year	(2 193)	(26 447)	(28 640)
Provision released during the year	-	(4 850)	(4 850)
Foreign currency translation difference	(76)	(783)	(859)
Balance at December 31, 2010	**7 696**	**130 114**	**137 810**

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

Judgement is necessary in assessing the likelihood that a pending claim will succeed, or liability will arise, and to quantify the possible range of final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision.

These estimates are subject to change as new information becomes available, primarily with the support of independent legal and technical experts. Revisions to the estimates may significantly affect future results.

Provision for warranties

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

Provisions for onerous contracts

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

Litigation

The Group has a number of claims including contract related disputes for contract delays or additional work which have arisen in the ordinary course of business. Contract related disputes are common to the business of the Group, particularly for large, long-term contracts. Based on the facts and circumstances existing on the date of these consolidated financial statements, as well as historical experience with such claims and litigations, management estimates that possible losses associated with unresolved contract related disputes at December 31, 2010, may amount up to US$ 18.9 million (2009: US$ 40.1 million).

Other contingencies

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

22. FINANCIAL RISK MANAGEMENT

Risk management

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

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

Concentration risk

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

Foreign currency risk

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

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

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

The table below details the Group's sensitivity to strengthening of the US dollar and the Euro against the rouble by 10%. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis was applied to monetary items at the reporting dates denominated in the respective currencies.

	US Dollar		EURO	
Assets	**2 010**	**2 009**	**2 010**	**2 009**
Trade and other receivables	106 608	98 546	42 266	43 785
Cash and cash equivalents	69 765	54 972	25 788	91 810
Total assets	**176 373**	**153 518**	**68 054**	**135 595**
Liabilities				
Loans and borrowings	(12 752)	(43 643)	(2 239)	(5 242)
Trade and other payables	(17 573)	(61 032)	(30 491)	(41 310)
Total liabilities	**(30 325)**	**(104 675)**	**(32 730)**	**(46 552)**
Total net position	**146 048**	**48 843**	**35 324**	**89 043**

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

	US dollar impact		EURO impact	
	2010	**2009**	**2010**	**2009**
Increase in profit (all in USD)	14 605	4 919	3 532	9 073

There would have been no impact directly on equity. A weakening of the above currencies at December 31 would have had the equal but opposite effect on the above currencies to the amount shown above on the basis that all other variable remain constant.

Interest rate risk

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

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

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

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

	2010	**2009**
Fixed interest rate bearing assets	463 342	471 309
Variable interest rate bearing liabilities	21 220	53 592
Fixed interest rate bearing liabilities	17 886	17 090

The Group does not account for any fixed rate financial assets and liabilities through profit or loss and, therefore, a change in interest rate at the reporting date would not affect profit or loss.

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

	Libor_impact	
	2010	**2009**
Increase in profit	212	383

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position and totals US$ 999.8 million (2009: US$ 666.4 million).

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's available bank facilities are disclosed in Note 16.

The following are the contractual maturities of financial liabilities at the reporting date, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

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

At December 31, 2009

	Carrying amount	Contractual cash flow	Within one year	One to five years	Over five years
Trade accounts payable	130 271	132 844	111 521	21 323	-
Trade and other payables to related parties	26 892	26 892	26 892	-	-
Debt finance	70 682	76 166	48 116	26 819	1 231
Other liabilities	50 605	50 605	48 996	1 609	-
	278 450	**286 507**	**235 525**	**49 751**	**1 231**

At December 31, 2010

	Carrying amount	Contractual cash flow	Within one year	One to five years	Over five years
Trade accounts payable	108 728	108 728	108 728	-	-
Trade and other payables to related parties	18 582	18 582	18 582	-	-
Debt finance	39 106	43 248	27 139	16 109	-
Other liabilities	62 459	62 744	59 944	2 800	-
	228 875	**233 302**	**214 393**	**18 909**	**-**

23. SUBSIDIARIES AND ASSOCIATES

Name of company	Principal activity	Country of incorporation	Ownership interest 2010	Ownership interest 2009
Subsidiaries:				
OJSC Kaluzhsky turbine plant	Production of turbines	Russia	69.29%	56.29%
Power Machines de Mexico	Installation of energy equipment	Mexico	99.90%	99.90%
Power Machines (India) Limited	Installation of energy equipment	India	100.00%	100.00%
LMZ Energy Limited	Sales of energy equipment	Ireland	100.00%	100.00%
EMEC LTDa	Installation of energy equipment	Columbia	99.99%	99.99%
OOO Interturbo	Production of turbines	Russia	55.12%	55.12%
OOO Reostat	Production of electric engines	Russia	100.00%	100.00%

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

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

The following is financial information in respect of associates:

	2010	**2009**
Current assets	11 711	11 020
Non-current assets	4 953	4 207
Short-term liabilities	4 921	5 592
Long-term liabilities	1 229	1 087
Equity	10 514	8 549

	2010	**2009**
Revenues	37 741	29 312
Net income	2 053	1 417

24. COMMITMENTS AND CONTINGENCIES

Long-term purchase contracts

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

Capital commitments

At the reporting date, the Group was committed to capital expenditure (property, plant and equipment) of approximately US$132.7 million (2009: US$ 47.6 million).

Social commitments

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

Financial Guarantees

The Group had not provided any material financial guarantees for third party suppliers of the Group.

Operating leases

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

	2010	**2009**
Payable within one year	867	1 194
Payable between one and five years	3 469	4 775
Payable after more than five years	38 712	53 718
	43 048	**59 686**

Insurance

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

Russian Federation tax and regulatory environment

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

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

With regards to matters where practice concerning payment of taxes is unclear, management estimated the possible tax exposure at December 31, 2010 to be approximately US$ 2.8 million (2009: US$ 1.9 million). Management has not provided any amounts in respects of such obligations in these consolidated financial statements as it believes that it possible but not probable that an outflow of economics will be required to settle such obligations.

Environmental liabilities

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

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

Volatility in financial markets

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

25. OTHER ITEMS

Dilution of non-controlling interest

In July 2009, one of the Group's subsidiary OJSC "Kaluzhsky turbine plant" ("KTZ") issued 160 368 ordinary shares with par value of RUB 1 to the Company by means of a closed subscription. The Company paid the first tranche of RUB 546.7 million in August 2009 (US$ 17.6 million at the exchange rate effective at the transaction date) of the total amount due under the share purchase agreement of RUB 780.9 million. According to share purchase agreement, the right of ownership on shares passes to the Company after the final payment of RUB 234.3 million.

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

26. EVENTS AFTER REPORTING DATE

The Group is not aware of any material events subsequent to the reporting date which may impact or require disclosure in these consolidated financial statements as at end for the year ended December 31, 2010.