OMZ

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

31 December 2010

Contents

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Independent Auditors' Report

To the Board of Directors of Open Joint Stock Company OMZ

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

Management's Responsibility for the Consolidated Financial Statements

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

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 qualified audit opinion.

Basis for Qualified Opinion

Management was unable to obtain sufficient information to determine the fair value on initial recognition of two available-for-sale investments acquired from related parties in September and December 2008, one of which was subsequently sold to a related party in December 2009. Management was also unable to obtain sufficient information to determine whether the remaining available-for-sale investment, which is stated at cost, is impaired as at 31 December 2010 and 2009 as required by IAS 39 *Financial Instruments: Recognition and Measurement*. We were unable to satisfy ourselves as to the carrying amount of available-for-sale investments stated at USD 31,181 thousand and USD 31,421 thousand as at 31 December 2010 and 31 December 2009, respectively, by alternative means. As a result, we were unable to determine whether adjustments might have been found necessary in respect of available-for-sale investments as at 31 December 2010 and 31 December 2009, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows. Our opinions on the consolidated financial statements as at and for the year ended 31 December 2009 and on the current year's figures have been modified accordingly.

Qualified Opinion

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

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28 April 2011

(in thousands of US dollars except per share amounts)

	Note	31 December 2010	31 December 2009
ASSETS			
Current assets:			
Cash and cash equivalents	9	176 057	16 311
Trade and other receivables	10	324 316	463 509
Advances to suppliers	10	87 944	66 155
Income tax receivable		7 725	5 429
Inventories	11	200 356	208 947
Non-current assets held for sale		-	5 845
Other current financial assets	12	143 199	35 856
Total current assets		**939 597**	**802 052**
Non-current assets:			
Property, plant and equipment	13	339 386	357 447
Intangible assets	14	32 511	48 427
Deferred tax assets	27	24 043	20 192
Other non-current financial assets	15	106 209	106 573
Other non-current assets	16	19 130	20 810
Total non-current assets		**521 279**	**553 449**
Total assets		**1 460 876**	**1 355 501**
LIABILITIES			
Current liabilities:			
Trade and other payables	17	532 492	518 443
Provisions for liabilities and charges	28	43 170	15 583
Short-term borrowings	18	268 184	120 945
Income tax payable		3 836	2 732
Total current liabilities		**847 682**	**657 703**
Non-current liabilities:			
Long-term borrowings	18	193 522	367 320
Long-term taxes payable		-	148
Deferred tax liabilities	27	9 564	26 657
Provisions for liabilities and charges	28	2 270	2 133
Other long-term liabilities	19	5 612	7 396
Total non-current liabilities		**210 968**	**403 654**
Total liabilities		**1 058 650**	**1 061 357**
EQUITY			
Equity and reserves attributable to the Company's equity holders:			
Share capital	20	382	384
Share premium		94 763	95 493
Treasury shares	20	(40 520)	(40 832)
Hedging reserve		1 326	(1 330)
Currency translation reserve		16 083	56 796
Retained earnings		212 916	169 688
		284 950	**280 199**
Non-controlling interest		117 276	13 945
Total equity		**402 226**	**294 144**
Total liabilities and equity		**1 460 876**	**1 355 501**

These consolidated financial statements were approved by management on 28 April 2011 and were signed on its behalf by:

Chief Executive Officer Borisov E.I.	First deputy Chief Executive Officer Fokin E.A.	Chief Accountant Polevaya N.V.

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Continuing operations			
Sales		746 004	653 277
Cost of sales	22	(655 408)	(508 116)
Gross profit		**90 596**	**145 161**
Selling expenses	23	(26 779)	(26 135)
General and administrative expenses	24	(70 966)	(71 009)
Other operating income	25	9 246	17 692
Other operating expense	25	(18 589)	(19 971)
Operating profit/(loss)		**(16 492)**	**45 738**
Finance income	26	12 356	9 723
Finance expense	26	(54 969)	(68 875)
Loss before taxation		**(59 105)**	**(13 414)**
Income tax benefit	27	7 124	862
Loss from continuing operations for the year		**(51 981)**	**(12 552)**
Discontinued operation			
Gain on disposal of discontinued operation	32	61 647	18 114
Profit/(loss) from discontinued operations, net of income tax			
- Profit/(loss) from subsidiary	32	(12 004)	15 377
- Loss from joint venture		-	(37 969)
Profit/(loss) from discontinued operations		**49 643**	**(4 478)**
Loss for the year		**(2 338)**	**(17 030)**
Other comprehensive income			
Foreign currency translation differences		(43 308)	591
Cash flow hedges, net of income tax		2 656	12 167
Other comprehensive income/(loss) for the year, net of income tax		**(40 652)**	**12 758**
Total comprehensive loss for the year		**(42 990)**	**(4 272)**
Profit/(loss) for the year attributable to:			
Equity holders of the Company		27 028	(13 329)
Non-controlling interest		(29 366)	(3 701)
Loss for the year		**(2 338)**	**(17 030)**
Comprehensive income/loss for the year attributable to:			
Equity holders of the Company		(13 390)	3 730
Non-controlling interest		(29 600)	(8 002)
Total comprehensive loss for the year		**(42 990)**	**(4 272)**
Earnings per share attributable to the equity holders of the Company (in US dollars)			
- basic	30	0,8739	(0,4310)
- diluted	30	0,8739	(0,4310)
Earnings from continuing operations per share attributable to the ordinary equity holders of the parent entity (in US dollars)			
- basic	30	(0,7312)	(0,2862)
- diluted	30	(0,7312)	(0,2862)

(in thousands of US dollars unless otherwise stated)

	Note	Year ended 31 December 2010	Continuing operations for the year ended 31 December 2010	Discontinued operation for the year ended 31 December 2010
Cash flows from operating activities				
Loss before taxation from continuing operations		(70 675)	(59 105)	(11 570)
Adjustments for:				
Depreciation and amortization		48 589	41 708	6 881
Change in provisions for impairment and other provisions		10 266	9 239	1 027
Reversal of property, plant and equipment impairment	13, 25	(2 987)	(2 881)	(106)
Gain on disposal of property, plant and equipment	25	(4 268)	(4 268)	-
Gain on derecognition of financial liability	25	(396)	(396)	-
Net finance cost adjusted for foreign exchange differences	26	45 314	45 246	68
Net foreign exchange (gain)/loss	26	(1 750)	(2 633)	883
Loss from disposal of securities	25	253	253	-
Impairment of goodwill	14	936	936	-
Impairment of other non-current assets		2 747	2 747	-
Operating cash flows before working capital changes		**28 029**	**30 846**	**(2 817)**
Change in trade and other receivables and advances to suppliers		81 753	81 728	(529)
Change in inventories		(45 914)	(39 623)	(6 291)
Change in trade and other accounts payable		90 821	82 559	8 816
Cash provided from continuing operations		**154 689**	**155 510**	**(821)**
Income taxes paid		(10 706)	(9 285)	(1 421)
Net cash provided from/(used in) operating activities		**143 983**	**146 225**	**(2 242)**
Cash flows from investing activities:				
Disposal of subsidiaries, net of cash disposed	32	141 220	141 220	-
Acquisition of subsidiaries, net of cash acquired	32	(3 636)	(3 636)	-
Purchase of property, plant and equipment and intangibles		(104 905)	(102 425)	(2 480)
Proceeds from sale property, plant and equipment and intangibles		8 309	8 309	-
Acquisition of financial assets		(32 647)	(32 647)	-
Proceeds from the disposal of financial assets		3 463	3 463	-
Interest received		6 052	6 050	2
Net proceeds from loans issued		(87 746)	(86 728)	(1 018)
Proceeds from sale of non-current assets held for sale		618	618	-
Net cash used in investing activities		**(69 272)**	**(65 776)**	**(3 496)**
Cash flows from financing activities:				
Proceeds from borrowings		729 637	714 418	15 219
Repayment of borrowings		(734 866)	(721 645)	(13 221)
Interest paid		(56 228)	(56 127)	(101)
Proceeds from disposal of non-controlling interest	32	152 607	152 607	-
Net cash provided from financing activities		**91 150**	**89 253**	**1 897**
Net increase/(decrease) in cash and cash equivalents		**165 861**	**169 702**	**(3 841)**
Effect of exchange rate changes on cash and cash equivalents		(755)	(420)	(335)
Cash and cash equivalents at the beginning of the year	9	**12 033**	**6 775**	**5 258**
Cash and cash equivalents of disposed companies		(1 082)	-	(1 082)
Cash and cash equivalents at the end of the year	9	**176 057**	**176 057**	**-**

(in thousands of US dollars unless otherwise stated)

	Note	Year ended 31 December 2009	Continuing operations for the year ended 31 December 2009	Discontinued operation for the year ended 31 December 2009
Cash flows from operating activities				
Profit/(Loss) before taxation from continuing operations		1 399	(13 414)	14 813
Adjustments for:				
Depreciation and amortization		38 454	25 969	12 485
Change in provisions for impairment and other provisions		30 303	22 968	7 335
Impairment loss on property, plant and equipment	13, 25	7 603	3 103	4 500
Gain on disposal of property, plant and equipment	25	(361)	(265)	(96)
Loss from disposal of intangible assets	14	1 585	1 585	-
Gain on derecognition of financial liability	25	(114)	(114)	-
Net finance cost adjusted for foreign exchange differences	26	55 377	55 096	281
Net foreign exchange loss	26	4 412	4 109	303
Net gain on disposal of securities	25	(14 818)	(14 818)	-
Operating cash flows before working capital changes		**123 840**	**84 219**	**39 621**
Change in trade and other receivables and advances to suppliers		(169 117)	(180 764)	19 617
Change in inventories		3 002	(2 245)	5 247
Change in trade and other accounts payable		127 756	134 031	(14 245)
Cash provided from continuing operations		**85 481**	**35 241**	**50 240**
Income taxes paid		(16 666)	(3 067)	(13 599)
Net cash provided from operating activities		**68 815**	**32 174**	**36 641**
Cash flows from investing activities:				
Proceeds from sale of interest in joint venture	32	18 114	18 114	-
Purchase of property, plant and equipment and intangibles		(62 520)	(38 632)	(23 888)
Proceeds from sale of property, plant and equipment and intangibles		846	322	524
Net purchases of financial assets		(4 984)	(4 984)	-
Proceeds from the disposal of financial assets		103 374	103 374	-
Interest received		8 700	8 629	71
Net proceeds from loans issued		5 028	5 556	(528)
Dividends received		-	16 991	-
Net cash from/(used in) investing activities		**68 558**	**109 370**	**(23 821)**
Cash flows from financing activities:				
Proceeds from borrowings		558 972	548 183	10 789
Repayment of borrowings		(661 651)	(649 846)	(11 805)
Interest paid		(56 589)	(56 226)	(363)
Dividends paid		-	-	(16 991)
Net cash used in financing activities		**(159 268)**	**(157 889)**	**(18 370)**
Net decrease in cash and cash equivalents		**(21 895)**	**(16 345)**	**(5 550)**
Effect of exchange rate changes on cash and cash equivalents		(2 570)	(1 973)	(597)
Cash and cash equivalents at the beginning of the year	9	**36 498**	**25 093**	**11 405**
Cash and cash equivalents at the end of the year	9	**12 033**	**6 775**	**5 258**

(in thousands of US dollars unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Treasury shares**	**Hedging reserve**	**Currency translation reserve**	**Retained earnings**	**Non-controlling interest**	**Total equity**
Balance as at 1 January 2009	**396**	**98 301**	**(42 033)**	**(13 690)**	**7 854**	**225 641**	**21 947**	**298 416**
Loss for the year	-	-	-	-	-	(13 329)	(3 701)	(17 030)
Other comprehensive income:								
Currency translation difference	(12)	(2 808)	1 201	193	48 942	(42 624)	(4 301)	591
Cash flow hedges, net of tax	-	-	-	12 167	-	-	-	12 167
Total comprehensive income for the year ended 31 December 2009	**(12)**	**(2 808)**	**1 201**	**12 360**	**48 942**	**(55 953)**	**(8 002)**	**(4 272)**
Balance as at 31 December 2009	**384**	**95 493**	**(40 832)**	**(1 330)**	**56 796**	**169 688**	**13 945**	**294 144**
Balance as at 1 January 2010	**384**	**95 493**	**(40 832)**	**(1 330)**	**56 796**	**169 688**	**13 945**	**294 144**
Profit/(loss) for the year	-	-	-	-	-	27 028	(29 366)	(2 338)
Other comprehensive income: Foreign currency translation differences	(2)	(730)	312	-	(40 713)	(1 941)	(234)	(43 308)
Cash flow hedges, net of tax	-	-	-	2 656	-	-	-	2 656
Total comprehensive income for the year ended 31 December 2010	**(2)**	**(730)**	**312**	**2 656**	**(40 713)**	**25 087**	**(29 600)**	**(42 990)**
Changes in ownership interests in subsidiaries that do not result in a loss of control: Disposal of non-controlling interest	-	-	-	-	-	18 141	132 931	151 072
Total changes in ownership interests in subsidiaries that do not result in a loss of control for the year ended 31 December 2010	**-**	**-**	**-**	**-**	**-**	**18 141**	**132 931**	**151 072**
Balance as at 31 December 2010	**382**	**94 763**	**(40 520)**	**1 326**	**16 083**	**212 916**	**117 276**	**402 226**

1. The OMZ Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2010. These consolidated financial statements incorporate the operations of OJSC OMZ (the "Company") and its subsidiaries (together referred to as the "Group" or "OMZ").

OJSC OMZ was incorporated as an open joint stock company in Ekaterinburg, the Russian Federation in 1996 and was established in accordance with Russian regulations. OMZ's principal subsidiaries are disclosed in Note 32. These are incorporated under the Laws of the Russian Federation and the Czech Republic. For details of changes in the Group structure during 2010 refer to Note 31.

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

Registered address and place of business.

The Company's current registered address is:

Russian Federation
Moscow
2nd Ambulatornii Proezd, 8 building 3

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

Russian Business Environment

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

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

2. Basis of Preparation

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

Basis of measurement. The consolidated financial statements are prepared on the historical cost basis except:

- derivative financial instruments, investments at fair value through profit or loss and financial investments classified as available-for-sale are stated at fair value;
- the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, GosKomStat. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

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

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

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

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

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

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

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

Foreign operations located in Czech Republic with functional currency CZK are first translated into RR and then further translated into the presentation currency US$. The assets and liabilities of foreign operations are translated to RR at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RR at exchange rates at the dates of the transactions. Foreign currency differences arising from translation of CZK to RR are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

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

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

As at 31 December 2010 the principal rates of exchange used for translating foreign currency balances were US$ 1 = RR 30,4769 (2009: US$ 1 = RR 30,2442) and CZK 1=RR 1,59 (31 December 2009 CZK 1=RR 1,63).

3. Summary of Significant Accounting Policies

The accounting policies set out below have been consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Consolidated financial statements

Subsidiaries. Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. 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.

Acquisitions from entities under common control. Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for at the date that common control was established. Identifiable assets and liabilities acquired are recognised at the fair value. Any cash excess over the identifiable assets and liabilities is recognised as goodwill. When the excess is negative, a bargain purchase gain is recognised immediately in the profit or loss.

Loss of control. Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Investments in associates (equity accounted investees). Associates are those entities in which the Group has significant influence, but not 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. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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

Transactions eliminated on consolidation. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

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

3. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

3. Summary of Significant Accounting Policies (Continued)

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.

Impairment of non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

3. Summary of Significant Accounting Policies (Continued)

Loans and receivables and held-to-maturity investments

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

3. Summary of Significant Accounting Policies (Continued)

Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred.

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

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

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

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

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

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

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

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

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

3. Summary of Significant Accounting Policies (Continued)

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

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

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

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit and loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

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

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

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

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

	Number of years
Buildings	20 - 50
Machinery and equipment	10 – 25
Other	3 - 10

Land and assets under construction are not depreciated.

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

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

3. Summary of Significant Accounting Policies (Continued)

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. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Goodwill on acquisitions of associates and joint ventures is included in the investment in associates/joint ventures.

Acquisitions of non-controlling interests

Goodwill arising on the acquisition of a non-controlling interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange. Goodwill/negative goodwill arising on the acquisition of a non-controlling interest in a subsidiary is recognised directly in equity.

Goodwill is carried at cost less accumulated impairment losses, if any.

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

Research and development. Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The capitalised expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in the profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

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

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

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

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

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

3. Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory inventories is determined based on the weighted average cost 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, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

3. Summary of Significant Accounting Policies (Continued)

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

A disposal group is assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition.

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

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

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

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

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

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

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

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

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

3. Summary of Significant Accounting Policies (Continued)

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

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

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

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. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

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

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

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

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

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

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

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

Revenue recognition. Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

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

3. Summary of Significant Accounting Policies (Continued)

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.

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

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

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

Lease Payments. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income and costs. Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Income taxes. Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, 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 recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

3. Summary of Significant Accounting Policies (Continued)

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

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

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

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

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

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

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

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

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

The judgments have been used indetermination of trade and other receivables provision amount (Note 10) and provisions for inventory (Note 11).

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 29.

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

With respect to deferred taxes, management has assumed that US$ 72 385 of tax losses will be utilised in the future (31 December 2009: US$ 33 015), the effect of which is to reduce the deferred tax liability recorded as at 31 December 2010 by US$ 14 477 (31 December 2009: US$ 6 603). Should these tax losses not be utilised, the deferred tax liability would be increased by this amount with a corresponding impact on the tax charge for the year. Tax benefits expire in 2015-2018.

Long-term contracts. Estimates have been made with respect to the recognition of revenue and gross margin on construction contracts including the expected "costs to complete", the probability of recovering retentions withheld by customers, variations/claims that have not yet been contractually agreed, the probability of customers making claims for delays under penalty clauses included in contracts as well as the financial impacts of customers cancelling construction contracts prior to their completion when cancellation clauses are included in contracts.

If the actual gross margins on the Group's contracts are 10% lower than management's estimates as at 31 December 2010, the Group would need to reduce the carrying value of amounts due from customers under construction contracts recognised using the percentage-of-completion method by US$ 27 739 (31 December 2009: US$ 23 125) with a corresponding effect on operating profit.

See note 21 for significant judgments made in relation to construction contracts.

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

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

Discontinued operations.

During 2010 the Group disposed 100% share in subsidiary Pilsen Steel s.r.o., which manufactures specialty steel in Czech Republic and 100% share in its subsidiary Pilsen Estate s.r.o. During 2009 the Group sold an interest in the joint venture which manufactures specialized heavy machinery including cranes, drilling and transportation logistics equipment. Management considers the sale of its subsidiary, Pilsen Steel s.r.o. and its joint venture to be disposals of separate major lines of business.

Although Pilsen Steel s.r.o.and OMZ Spetstal LLC are both engaged in the manufacture of speciality steels, management considers that the sale of Pilsen Steel s.r.o is the disposal of a separate major line of business because the types of steel produced by this business differ significantly in their sophistication and properties than the products manufactured by OMZ Spetstal LLC. As a consequence, Pilsen Steel’s products are often used to construct assets that have entirely different end uses and are consumed by different types of customers than products manufactured by OMZ Spetstal LLC.

Pilsen Steel s.r.o. offers a limited range of relatively standardized steel products that can be used in general industry. OMZ Spetstal LLC is engaged primarily in the manufacture of a wide range of proprietary advanced engineered steel products which can be used for highly specialized industrial purposes in extreme operating environments including for use in the manufacture of sophisticated nuclear equipment.

Consequently, in accordance with the requirements of IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, management has presented the subsidiaries Pilsen Steel s.r.o. , Pilsen Estate s.r.o and the joint venture as a discontinued operation. Comparative data has been presented as if this business has been sold from the beginning of the corresponding comparative period.

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

In 2010 the Group adopted new Standards, amendments to Standards and Interpretations which are effective as at 1 January 2010 and are expected to have an impact on the recognition, measurement, presentation and disclosure of transactions and other matters in its consolidated financial statements. The following new Standards and amendments were applied by the Group from 1 January 2010 and did not have a significant impact on the Group's accounting policies:

- Revised IFRS 3 Business Combinations (2008) and amended IAS 27 (2008) Consolidated and Separate Financial Statements came into effect on 1 July 2009. The revisions address, among other things, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require the effects of transactions with non-controlling interests to be recognised directly in equity.

- Amendments to IFRS 5 Non-current Assets held for Sale and Discontinued Operations which came into effect on 1 July 2009. The amendment clarifies the classification of assets and liabilities on disposal of a subsidiary.

- Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement clarify the separation criteria for embedded derivatives on reclassification of a hybrid instrument out of the fair value through profit or loss category. The amendment became effective for annual periods ending on or after 30 June 2009.

- IFRIC 17 Distributions of Non-cash Assets to Owners addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how a non-cash dividend should be recognised and how the difference between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 became effective for annual periods beginning on or after 1 July 2009.

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

- IFRIC 18 Transfers of Assets from Customers applies to accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies the recognition and measurement of items received, how the resulting credit, as well as the transfer of cash from customers should be accounted for. IFRIC 18 applies prospectively to transfers of assets from customers received on or after 1 July 2009.

- The amendment to IAS 17 Leases regarding the leases of land became effective from 1 January 2010. The amendment removed the earlier exemption which allowed leases of land to be classified as operating leases regardless of the length of the lease term. The amended guidance requires all existing leases of land to be reassessed and reclassified if necessary as finance leases if the finance lease classification criteria are met. At 1 January 2010, the Group reassessed all existing land lease contracts and as a result it was assessed that existing land lease contracts do not qualify as finance lease contracts and therefore, the classification was not changed.

6. New Accounting Pronouncements

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

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

- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group’s consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

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

- *Various Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

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

(in thousands of US dollars unless otherwise stated)

7. Segment Information

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

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

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

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

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

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

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

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

Sales or other transactions between the business segments are determined by management with reference to commercial terms applicable for third parties.

Continuing operations:

Russia:

	Izhorskiye Zavody OJSC	**OMZ-Specstal LLC**	**IZ-KARTEKS LLC**	**Total**
Year ended 31 December 2010				
Segment sales	**177 375**	**174 976**	**120 496**	**472 847**
Intersegment sales	33 883	86 492	984	121 359
External sales	143 492	88 484	119 512	351 488
Reportable segment profit/(loss) for the year	**8 966**	**(27 959)**	**4 384**	**(14 609)**
Interest income	**561**	**1 195**	**305**	**2 061**
Interest expense	**(17 148)**	**(12 181)**	**(6 330)**	**(35 659)**
Depreciation	**(4 133)**	**(8 176)**	**(1 380)**	**(13 689)**
Income tax benefit/(expense)	**(2 318)**	**6 241**	**(1 377)**	**2 546**

(in thousands of US dollars unless otherwise stated)

7. Segment Information (Continued)

Czech Republic

	SKODA JS a.s
Year ended 31 December 2010	
Intersegment sales	**239 391**
Intersegment sales	-
External sales	239 391
Reportable segment net profit/(loss) for the year	**13 008**
Interest income	**138**
Interest expense	**(12)**
Depreciation	**(2 651)**
Income tax expense	**(4 309)**

Discontinued operation

Czech Republic*:*

	PILSEN STEEL s.r.o.
Year ended 31 December 2010	
Segment sales	**75 222**
Intersegment sales	502
External sales	74 720
Reportable segment loss for the year	**(13 088)**
Interest income	**2**
Interest expense	**(902)**
Depreciation	**(6 661)**
Income tax expense	**(913)**

The sales by type of products is presented as follows:

Continuing operations:

	Nuclear equipment	Special steel	Mining equipment	Oil and gas equipment	Other	Total
Year ended 31 December 2010						
External sales	345 037	144 620	120 946	36 955	98 446	746 004

Discontinued operation:

	Special steel	Total
Year ended 31 December 2010		
External sales	75 429	75 429

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

	Year ended 31 December 2010.
Net loss of segments (excluding discontinued operations)	(1 601)
Other profit	15 224
Loss from discontinued operation	(12 004)
Recognition of provision for penalty	(12 184)
Loss from impairment goodwill	(936)
Recognition of provision for loss-making contracts	(23 113)
Gain on disposal of discontinued operation	61 647
Recognition of revenue by the percentage of completion method	(7 546)
Elimination of income and expense arising from intragroup transactions	(9 495)
Recognition and measurement effect of other differences between statutory reporting and IFRSs	(12 330)
Loss for the year	**(2 338)**

(in thousands of US dollars unless otherwise stated)

7. Segment Information (Continued)

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

	Year ended 31 December 2010.
External sales for operating segments	590 879
External sales for discontinued operation	74 720
External sales for segments	**665 599**
Other external sales	167 980
Effect of adjustment for external sales recorded as discontinued operation (Note 32)	(75 429)
Recognition of revenue by the percentage of completion method	(7 546)
Recognition and measurement of other differences between statutory reporting and IFRS	(4 600)
Sales in the statement of comprehensive income	**746 004**

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

	Izhorskiye Zavody OJSC	**OMZ-Specstal LLC**	**IZ-KARTEKS LLC**	**Total**
Total assets for segments	567 883	361 080	117 561	1 046 524
Total liabilities for segments	379 692	199 247	87 107	666 046

	SKODA JS a.s	**Total**
Total assets for segments	215 717	215 717
Total liabilities for segments	135 937	135 937

The effect of the adjustments to reportable segment assets as at 31 December 2010 to present in conformity with IFRSs as reported in statement of financial position is as follows:

Total assets for segments	**1 262 241**
Other assets	1 332 180
Elimination of amounts due to and due from entities consolidated within the Group	(579 251)
Elimination of investments in subsidiaries	(339 007)
Netting-off of due to and due from under construction contracts	(143 033)
Netting-off of advances given/received with related payables/receivables	(43 998)
Unrealized income and expense arising from intragroup transactions	(16 045)
Recognition and measurement effect of other differences between statutory reporting and IFRSs including:	
- recognition of property, plant and equipment acquired using finance leases	3 685
- purchase accounting adjustments associated with historical business combinations and differences in useful economic lives for property, plant and equipment and intangible assets	5 029
- difference in valuation of accounts receiveable	(20 470)
- difference in valuation of inventory	(9 412)
- other	8 957
Total assets in statement of financial position	**1 460 876**

Total liabilities for segments	**801 983**
Other liabilities	933 427
Elimination of amounts due to and due from entities consolidated within the Group	(579 251)
Netting-off of due to and due from under construction contracts	(143 033)
Netting-off of advances given/received with related payables/receivables	(43 998)
Recognition of provision for loss-making contracts	23 113
Recognition of provision for penalty	12 184
Recognition of provisions in accordance with IFRS	40 542
Effect of other recognition and measurement differences between statutory reporting and IFRSs	13 683
Total liabilities in statement of financial position	**1 058 650**

(in thousands of US dollars unless otherwise stated)

7. Segment Information (Continued)

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

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	Sales Year ended 31 December 2010	Non-current assets 31 December 2010
Russian Federation	452 034	307 113
OECD countries	260 321	83 914
Other regions	33 649	-
Total	**746 004**	**391 027**

Comparative information for 2009 year:

Continuing operations:

Russia:

	Izhorskiye Zavody OJSC	OMZ-Specstal LLC	IZ-KARTEKS LLC	Total
Year ended 31 December 2009				
Segment sales	**214 946**	**205 509**	**69 289**	**489 744**
Intersegment sales	13 803	131 100	3 772	148 675
External sales	201 143	74 409	65 517	341 069
Reportable segment profit/(loss) for the year	**5 997**	**8 550**	**(4 183)**	**10 364**
Interest income	**46**	**1 358**	**10**	**1 414**
Interest expense	**(18 939)**	**(12 064)**	**(8 215)**	**(39 218)**
Depreciation	**(3 140)**	**(2 992)**	**(1 011)**	**(7 143)**
Income tax benefit/(expense)	**(3 543)**	**(2 091)**	**674**	**(4 960)**

Czech Republic:

	SKODA JS a.s
Year ended 31 December 2009	
Segment sales	**205 130**
Intersegment sales	2
External sales	205 128
Reportable segment profit for the year	**8 121**
Interest income	**202**
Interest expense	**(68)**
Depreciation	**(2 594)**
Income tax expense	**(2 408)**

Discontinued operation:

Czech Republic:

	PILSEN STEEL s.r.o.
Year ended 31 December 2009	
Segment sales	**227 763**
Intersegment sales	1 391
External sales	226 372
Reportable segment profit for the year	**16 361**
Interest income	**63**
Interest expenses	**(2 142)**
Depreciation	**(12 740)**
Income tax expense	**(2 266)**

(in thousands of US dollars unless otherwise stated)

7. Segment Information (Continued)

The sales by types of products presented by following:

Continuing operations:

	Nuclear equipment	Special steel	Mining equipment	Oil and gas equipment	Other	Total
Year ended 31 December 2009						
External sales	364 124	74 410	65 517	28 725	120 501	653 277

Discontinued operation:

	Special steel	Total
Year ended 31 December 2009		
External sales	213 696	213 696

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

	Year ended 31 December 2009.
Net profit of segments (excluding discontinued operations)	18 485
Other loss	(13 801)
Profit from discontinued operation	16 361
Loss from joint venture	(37 969)
Profit from sale of investment in the joint venture	18 114
Recognition of revenue by the percentage of completion method	(13 935)
Recognition and measurement effect of other differences between statutory reporting and IFRSs	(4 285)
Loss for the year	**(17 030)**

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

	Year ended 31 December 2009
External sales for operating segments	550 274
External sales for discontinued operation	226 372
External sales for segments	**776 646**
Other external sales	124 578
Effect from reclassification external sales in profit/loss from discontinued operation	(226 290)
Recognition of revenue by the percentage of completion method	(13 935)
Recognition and measurement effect of other differences between statutory reporting and IFRSs	(7 722)
Sales in the statement of comprehensive income	**653 277**

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

	Izhorskiye Zavody OJSC	OMZ-Specstal LLC	IZ-KARTEKS LLC	Total
Total assets for segments	587 112	194 280	91 193	872 585
Total liabilities for segments	465 404	145 104	84 742	695 250

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

(in thousands of US dollars unless otherwise stated)

7. Segment Information (Continued)

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

Total assets for segments	**1 350 512**
Other assets	1 087 866
Elimination of amounts due to and due from entities consolidated within the Group	(532 217)
Elimination of investments in subsidiaries	(324 930)
Netting-off of due to and due from under construction contracts	(194 111)
Unrealized income and expense arising from intragroup transactions	(19 733)
Recognition and measurement effect of other differences between statutory reporting and IFRSs including:	
- recognition of property, plant and equipment acquired using finance leases	78 332
- purchase accounting adjustments associated with historical business combinations and differences in useful economic lives for property, plant and equipment and intangible assets	(15 719)
- difference in valuation of accounts receivable	(24 387)
-difference in valuation of inventory	(21 546)
-other	(28 566)
Total assets in statement of financial position	**1 355 501**

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

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

	Sales Year ended 31 December 2009	**Non-current assets 31 December 2009**
Russia	275 199	194 791
OECD countries	378 078	233 846
Total	**653 277**	**428 637**

(in thousands of US dollars unless otherwise stated)

8. Balances and Transactions with Related Parties

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

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

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

As at 31 December 2010 CJSC "Forpost-Management" owns 49,90% of the Company's total outstanding common shares (31 December 2009: 44,41%). CJSC "Forpost-Management" is able to exercise control over the Company's operating and financial policies so as to obtain the benefits from its activities by virtue of the fact that, adjusted for ordinary shares held in treasury stock held by the Group, they control in excess of 50% of the voting rights of the outstanding common shares.

During 2010 year the Group's immediate and intermediate parent companies has acquired direct non-controlling interests in two of the Group's subsidiaries in exchange for US$ 152,607 (Note 32). The proceeds from the sale of the stakes in these two subsidiaries have been used to retire borrowings and finance lease obtained from intermediate parent company.

During the year 2010 the Group repaid liabilities under financial lease of plant and equipment acquired from its immediate parent company for amount US$ 87 758. During the year 2010 the Group in addition acquired plant and equipment of US$ 60 442 from its immediate parent company.

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

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

The outstanding balances with the related parties were as follows

	31 December 2010		31 December 2009	
	Immediate and intermediate parent company	**Entities under common control**	**Immediate and Intermediate parent company**	**Entities under common control**
Gross amount of trade receivables	147	9 304	4	2 327
Other receivables	1 251	3 790	1	7 927
Advances issued	211	30 787	863	28 502
Loans issued	-	27 520	-	15 750
Other current assets	-	111		
Other non-current financial assets	8 203	-	-	-
Trade and other payables	(5 396)	(11 754)	(2)	(12 814)
Advances received	(50 891)	(22 134)	-	(1 226)
Loans and borrowings	(118 591)	(31)	(134 375)	(4 968)
Non-convertible bonds	(20 061)	-	(94 735)	-

Amounts due from related parties are unsecured.

Loans and borrowings received from related parties are presented by loans from OJSC "Gazprombank" and the Company's immediate parent company. The majority of these loans are denominated in RR

(in thousands of US dollars unless otherwise stated)

8. Balances and Transactions with Related Parties (Continued)

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

	Year ended 31 December 2010		Year ended 31 December 2009		
	Immediate and Intermediate parent company	**Companies under common control**	**Immediate and Intermediate parent company**	**Joint venture**	**Entities under common control**
Sales of goods	90	23 522	-	495	3 036
Proceeds from the disposal of available for sale investments	-	-	-	-	101 859
Purchases	(1 724)	(22 240)	(171)	(480)	(2 325)
Interest income	73	2 578	73	872	1 724
Interest expense	(28 155)	(441)	(19 141)	-	(8 618)
Proceeds from borrowing	323 168	-	250 821	-	-
Repayment of loans	(338 517)	(5 436)	(182 123)	-	-
Purchases of other non-current financial assets	8 203	-	-	-	-
Proceeds from disposal of joint venture	-	-	-	-	18 114

During 2010, the Group also purchased advisory services related to disposal of discontinued operation from an related party in amount of US$ 1,327 (Note 32).

Key management compensation

The remuneration paid to the key management of the Group including members of the Board of Directors of the Company is determined for the period from one annual general meeting to the next. For the year ended 31 December 2010 the aggregate compensation to the directors included in general and administrative expenses in the consolidated income statement amounted to US$ 5 654 (31 December 2009: US$ 6 454). These figures include termination benefits in the amount of US$ 635 for the year ended 31 December 2010 (31 December 2009: US$ 77). All other benefits accrued to key management are short term employee benefits.

Guarantees

As at 31 December 2010, the Group has outstanding guarantees on loans of US$ 29 120 (31 December 2009: US$ 44 022) issued to the former joint venture and an entity under common control. Guarantee fees are determined on a case-by-case basis and are charged annually (Note 29).

Pricing policies

Certain related party transactions such as guarantees issued and acquisition and disposal of investments are based on prices determined with input from an intermediate parent company. Borrowings from related parties are denominated in Russian Roubles at interest rates of between 8-13 percent per annum.

9. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	31 December 2010	**31 December 2009**
RR denominated cash on hand and balances with banks	4 120	6 894
CZK denominated cash on hand and balances with banks	14 148	1 841
EUR denominated cash on hand and balances with banks	132 828	6 842
US$ denominated cash on hand and balances with banks	10	618
Other currency denominated balances with bank	47	-
Cash equivalents in RUR	677	116
Cash equivalents in EUR	24 227	-
Total cash and cash equivalents in the Statement of Financial Position	**176 057**	**16 311**
Bank overdraft	-	(4 278)
Total cash and cash equivalents in the Statement of Cash Flows	**176 057**	**12 033**

The effective annual interest rate of bank balances payable on demand is 0,1% (31 December 2009: 0,1%).

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

(in thousands of US dollars unless otherwise stated)

10. Trade and Other Receivables

	31 December 2010	31 December 2009
Trade receivables	90 862	207 415
Accounts due from customers for construction work	101 843	141 504
Forward foreign exchange contracts – cash flow hedges	926	513
VAT receivable	23 944	34 935
VAT on advances from customers	77 273	66 337
Other taxes receivable	1 157	477
Other receivables	28 311	12 328
Total trade and other receivables	**324 316**	**463 509**
Advances to suppliers	87 944	66 155

Accounts receivable are denominated in RR except for US$ 6 700 denominated in US$, US$ 72 927 denominated in CZK and US$ 93 744 denominated in EUR as at 31 December 2010 (31 December 2009: US$ 10 209 denominated in US$, US$ 74 171 denominated in CZK, US$ 187 329 denominated in EUR$ and US$ 20 denominated in other).

As at 31 December 2010 trade and other accounts receivable, advances to suppliers and VAT receivable of US$ 25 512 (31 December 2009: US$ 33 253) were individually impaired. The individually impaired receivables mainly relate to customers overdue for more than 6 months, which management does not expect to be collectible.

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

	31 December 2010	31 December 2009
Trade receivables	(6 547)	(15 896)
Advances to suppliers	(1 586)	(1 860)
Other receivables	(15 141)	(13 763)
VAT receivable	(2 238)	(1 734)
	(25 512)	**(33 253)**

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

	Trade receivables	Advanced to suppliers	Other receivables	VAT recoverable	Total
As at 1 January 2009	**(20 128)**	**(2 139)**	**(18 721)**	**-**	**(40 988)**
Provision charged	(10 887)	(275)	(101)	(1 734)	(12 997)
Provision used	10 096	162	45	-	10 303
Provision reversed	4 786	329	7 088	-	12 203
Exchange differences	237	63	(2 074)	-	(1 774)
As at 1 January 2010	**(15 896)**	**(1 860)**	**(13 763)**	**(1 734)**	**(33 253)**
Provision charged	(5 053)	(895)	(5 883)	(536)	(12 367)
Provision used	7 790	483	4 256	-	12 529
Provision reversed	5 150	455	238	17	5 860
Acquisition through purchase of subsidiaries	-	-	(102)	-	(102)
Disposal through the sale of subsidiaries	1 239	197	-	-	1 436
Exchange differences	223	34	113	15	385
As at 31 December 2010	**(6 547)**	**(1 586)**	**(15 141)**	**(2 238)**	**(25 512)**

As at 31 December 2010, trade receivables of US$ 8 143 (31 December 2009: US$ 15 427) were past due but not impaired. These relate to a number of unrelated customers with no recent history of default. The ageing of these trade receivables is as follows:

	31 December 2010	31 December 2009
Less than 6 months	8 143	15 427
From 6 to 12 months	-	-
More than 12 months	-	-
Total trade receivable past due not impaired	**8 143**	**15 427**

(in thousands of US dollars unless otherwise stated)

11. Inventories

	31 December 2010	31 December 2009
Raw materials	98 356	110 993
Work in progress	65 603	102 577
Finished goods	45 906	30 968
Goods in transit	8 389	7 590
Provision for obsolete inventory	(17 976)	(43 444)
Other	78	263
Total Inventories	**200 356**	**208 947**

Certain inventories included above totalling US$ 16 406 (31 December 2009: US$ 32 171) were provided as security under loan agreements (Note 18).

As at 31 December 2010 and 2009 there were no inventories carried at fair value less costs to sell.

Movements in the provision for obsolete inventory are as follows:

	Provision for obsolete inventory
As at 1 January 2009	**(21 511)**
Provision charged	(27 715)
Provision reversed	5 819
Provision used	443
Exchange differences	(480)
As at 31 December 2009	**(43 444)**
Provision charged	(7 177)
Provision reversed	20 116
Provision used	885
Disposal of subsidiaries	10 278
Exchange differences	1 366
As at 31 December 2010	**(17 976)**

12. Other Current Financial Assets

	31 December 2010	31 December 2009
Short-term loans issued	113 262	22 371
Promissory notes	7 899	8 119
Provision for promissory notes	(7 788)	(8 119)
Restricted cash	606	13 485
Available-for-sale investments stated at cost	28 710	-
Other	510	-
Total Other Current Assets	**143 199**	**35 856**

Restricted cash of US$ 606 as at 31 December 2010 (31 December 2009: US$ 13 485) represents CZK-denominated cash advances received from customers that have been placed in a bank deposit and whose use is restricted to payments to specific suppliers as stipulated in the contracts with customers.

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

During 2010, the Group acquired available-for-sale investments in CJSC "REP Holding" and OJSC "Zavod Elektropult" in a structured transaction (Note 18)

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

	Provision for promissory notes
As at 1 January 2009	**(4 644)**
Provision charged	(3 853)
Provision reversed	558
Exchange differences	(180)
As at 31 December 2009	**(8 119)**
Provision used	33
Exchange differences	298
As at 31 December 2010	**(7 788)**

(in thousands of US dollars unless otherwise stated)

13. Property, Plant and Equipment

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

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
Balance as at 1 January 2010					
Cost	159 522	350 938	55 604	33 060	599 124
Accumulated depreciation	(51 738)	(128 223)	(52 201)	-	(232 162)
Impairment loss recognised	(5 431)	(4 079)	(5)	-	(9 515)
Net book value as at 1 January 2010	**102 353**	**218 636**	**3 398**	**33 060**	**357 447**
Exchange differences	(3 936)	(7 101)	(73)	(1 718)	(12 828)
Additions	59 171	44 195	569	18 664	122 599
Acquisition of subsidiaries (see Note 32)	2 247	1 496	-	-	3 743
Transfers	216	4 841	3	(5 060)	-
Disposals	(1 206)	(1 273)	(20)	(1 553)	(4 052)
Disposals of subsidiaries	(22 838)	(49 035)	(17)	(14 780)	(86 670)
Impairment reversal	2 653	329	5	-	2 987
Depreciation	(4 329)	(38 413)	(1 098)	-	(43 840)
Net book value as at 31 December 2010	**134 331**	**173 675**	**2 767**	**28 613**	**339 386**
Balance as at 31 December 2010					
Cost	169 227	301 624	15 836	28 613	515 300
Accumulated depreciation	(32 372)	(125 388)	(13 068)	-	(170 828)
Impairment loss recognised	(2 524)	(2 561)	(1)	-	(5 086)
Net book value as at 31 December 2010	**134 331**	**173 675**	**2 767**	**28 613**	**339 386**

Comparative information for 2009:

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

As at 31 December 2010 bank borrowings are secured with property, plant and equipment with a carrying value of US$ 5 421 (31 December 2009: US$ 1 468) (Note 18).

During the year ended 31 December 2010, the Group performed a review of property, plant and equipment and reversed impairment of US$ 2 987, charged in 2009 on fixed assets mothballed. In 2010 these fixed assets were put into operation.

Land and buildings include 120 plots of land in Bolevec (Czech Republic) with a total area of 334 719 square meters, 8 plots in Plzen (Czech Republic) with a total area of 31 746 square meters and 28 plots in Kolpino (Russia) with a total area of 712 266 square meters.

The amount of borrowing costs capitalized during the 2010 is US$ 398 (2009: US$ 472) using the capitalization rate of 12% (2009: 12%).

13. Property, Plant and Equipment (Continued)

Management considers the segment loss as an indicator of potential impairment for OMZ-Specstal cash generating unit as at 31 December 2010. Consequently management carried out an impairment test of the carrying value of the property, plant and equipment related to the cash generating unit. The recoverable amount of the cash-generating unit has been determined based on value in use. Cash flows related to the cash generating units were projected based on the actual operating results and the five-year cashflow forecast.

Assumptions underlying the impairment testing are described below:

- Cash flows were projected based on past experience, actual operating results and the key assumptions below.
- Selling prices for specialty based steel were projected on the basis of the Group's actual prices in 2010 increased by the forecast consumer price inflation rate for each year of the projection;
- Production volumes are forecast to increase at 5% over the course of projection. Unit production costs are forecast to increase in line with inflation;
- A pre-tax discount rate of 22,7% was applied in determining the recoverable amount of the property, plant and equipment. The discount rate was estimated based on an industry average weighted average cost of capital.
- A terminal value was derived at the end of a five-year forecast period with 3,5% terminal growth rate.

The values assigned to the key assumptions represent management's assessment of future trends in specialty based steel production industry and are based on both external sources and internal sources (historic data). As a result of impairment testing performed, the discounted cash flows calculated as at 31 December 2010 supported the carrying value for related property, plant and equipment, and therefore no impairment provision was recognized.

The estimated recoverable amount of the property, plant and equipment as at 31 December 2010 is approximately equal to its carrying amount. Management has identified two key assumptions for which there could be a reasonably possible change that could cause the carrying amount to exceed the recoverable amount. The above estimates are particularly sensitive in the following areas:

- An increase of 1 % in the discount rate used would trigger an impairment of US$ 22,310.
- A 1% decrease in the forecast 5% in annual growth of future production volumes would trigger an impairment of US$ 13,731.

(in thousands of US dollars unless otherwise stated)

14. Intangible Assets

The carrying value of intangible assets as at 31 December 2010 and 2009 was as follows:

	Goodwill	Trademark	Other intangible assets	Total
Balance as at 1 January 2010				
Cost	-	25 276	39 888	65 164
Accumulated amortization	-	(3 730)	(13 007)	(16 737)
Net book value as at 1 January 2010	**-**	**21 546**	**26 881**	**48 427**
Additions	-	-	2 834	2 834
Acquisition of subsidiary (see Note 32)	936	-	27	963
Disposals	-	-	(65)	(65)
Disposal of subsidiaries	-	(6 809)	(5 069)	(11 878)
Amortisation	-	(749)	(3 995)	(4 744)
Impairment	(936)	-	-	(936)
Exchange differences	-	(1 165)	(925)	(2 090)
Closing net book value	**-**	**12 823**	**19 688**	**32 511**
Balance as at 31 December 2010				
Cost	-	16 413	32 825	49 238
Accumulated amortisation	-	(3 590)	(13 137)	(16 727)
Net book value as at 31 December 2010	**-**	**12 823**	**19 688**	**32 511**

Comparative information for 2009

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

Trade marks consist of license agreements for trade marks “ŠKODA” used by ŠKODA JS a.s. The fair values of these licensed agreements for trade marks were evaluated by American Appraisal in 2004 using the income approach, referred to as the “relief from royalty” method. No indications of impairments were identified by the Group as of the reporting date for these intangible assets.

In 2010, certain trade marks were disposed of in the sale of Pilsen Steel s.r.o. (Note 32).

During 2010 year the Group obtained control over LLC «Izhorskiye svarochnyie materially» (note 32) which resulted in goodwill of US$ 936 which was fully impaired as at the balance sheet date as management believes that company will not generate any cash to support the amount of goodwill.

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

15. Other Non-Current Financial Assets

	31 December 2010	31 December 2009
Long-term loans issued	59 894	68 307
Available-for-sale investments stated at cost	34 785	36 296
Non-current accounts receivable	4 815	1 953
Restricted cash	6 715	-
Other accounts receivable	-	17
Total other non-current financial assets	**106 209**	**106 573**

(in thousands of US dollars unless otherwise stated)

15. Other Non-Current Financial Assets (Continued)

Available-for-sale investments stated at cost

Entity	Country of Incorporation	31 December 2010	% of share capital	31 December 2009	% of share capital
CJSC “Atomstroyexport” [2]	Russian Federation	31 181	3	31 421	11
CJSC “Sezam”	Russian Federation	9	22	468	22
UJV Rez a.s.	Europe	2 391	17	2 470	17
Other	Russian Federation	1 204	-	1 937	-
		34 785		**36 296**	

Available for sale investments stated at cost as at 31 December 2010 comprise of unquoted equity securities in the Nuclear Power Construction/Services. There is no market for these investments and there have not been any recent transactions with third parties that provide evidence of fair value. In addition, discounted cash flow techniques could not be applied due to a lack of financial information.

The Federal Law “On Joint Stock Companies” states that only shareholders with a 25% ownership interest or more have the right to request detailed financial information from the entity, in which they hold their investment. As there are indicators of impairment as a consequence of the decline in equity markets after the acquisition of these investments, management has requested financial information from the entities in which the Group holds minority stakes to enable management to assess whether the Group's investments could be impaired or not. However, management has not been able to obtain sufficient financial information prior to the date of the issuance of these consolidated financial statements from the entities themselves or from other public sources and, consequently, was unable to determine whether the Group’s investments in CJSC “Atomstroyexport” was impaired or not as at 31 December 2010.

16. Other Non-Current Assets

	31 December 2010	31 December 2009
Advances issued	17 113	20 810
Other non-current assets	2 017	-
Total Other Non-Current Assets	**19 130**	**20 810**

17. Trade and Other Accounts Payable

	31 December 2010	31 December 2009
Trade payables	111 188	224 450
Billings in excess of cost and recognized income	104 026	45 544
Derivatives	210	1 954
Other payables and accrued expenses	7 165	12 241
Total financial liabilities	**222 589**	**284 189**
Payroll accounts payable	14 666	15 259
Provision for unused vacation	5 578	4 783
VAT payable	34 337	12 701
Advances received	248 045	193 543
Short-term portion of long-term taxes payable	-	2 335
Other taxes payable	7 277	5 633
Total trade and other accounts payable	**532 492**	**518 443**

As at 31 December 2010 accounts payable were primarily denominated in RR except for US$ 3 120 denominated in US$, US$ 69 833 denominated in CZK, US$ 101 679 denominated in EUR and US$ 210 denominated in other currencies (31 December 2009: US$ 5 966 denominated in US$, US$ 87 395 denominated in CZK, US$ 178 379 denominated in EUR and US$ 6 denominated in other currencies).

(in thousands of US dollars unless otherwise stated)

18. Borrowings

Short-term loans and borrowings

	31 December 2010	31 December 2009
EUR denominated fixed rate	1 019	57
EUR denominated floating rate	-	13 931
CZK denominated floating rate	-	4 278
RR denominated fixed rate	200 997	80 900
RR denominated floating rate	65 425	-
	267 441	**99 166**
Add: current portion of long-term debt	-	5 395
Short-term finance lease liabilities	743	16 384
Total short-term borrowings	**268 184**	**120 945**

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

	31 December 2010	31 December 2009
EUR denominated fixed rate	4,50%	3,80%
EUR denominated floating rate	-	EURIBOR + 1 %
CZK denominated floating rate	-	2,20%
RR denominated fixed rate	7,5 - 11,5%	13,21%
RR denominated floating rate	10,75 - 15%	
Non-convertible bonds		-

As at 31 December 2010 no short-term borrowings are secured on the property and inventory of the Group (31 December 2009: US$ 5 395). The carrying amount of pledged inventory, property, plant and equipment is disclosed in Notes 11 and 13, respectively.

Changes of carrying amount of non-convertible bonds for years 2010 and 2009 are as follows:

Balance at 1 January 2009	**135 576**
Repayment	(28 370)
Amortization of discount	425
Effect of exchange rate changes	(5 239)
Balance at 31 December 2009	**102 392**
Repayment	(73 700)
Amortization of discount	64
Effect of exchange rate changes	(521)
Balance at 31 December 2010	**28 235**

Long-term borrowings

	31 December 2010	31 December 2009
RR denominated fixed rate	67 577	133 550
RR denominated floating rate	31 216	-
EUR denominated fixed rate	59 731	68 016
EUR denominated floating rate	5 738	4 199
Long-term finance lease liabilities	1 025	59 163
Non-convertible bonds	28 235	102 392
Total long-term borrowings	**193 522**	**367 320**

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

	31 December 2010		31 December 2009	
	Carrying amounts	Fair values	Carrying amounts	Fair values
Non-convertible bonds	28 235	28 235	102 392	102 392
Long-term finance lease liabilities	1 025	1 025	59 163	59 163
Long-term borrowings	164 262	164 262	205 765	214 936

(in thousands of US dollars unless otherwise stated)

18. Borrowings (Continued)

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

	31 December 2010	31 December 2009
RR denominated fixed rate	9,85 - 12,00%	14,10%
RR denominated floating rate	10,00 - 12,00%	-
EUR denominated fixed rate	10,85%	10,85%
EUR denominated floating rate	2,00 – 8,00 %	EURIBOR + 1,15%
Long-term finance lease liabilities	26,00%	26,1%-26,9%
Non-convertible bonds	13,00%	13,00%

As at 31 December 2010, long-term borrowings totalling US$ 10 151 (31 December 2009: US$ 8 892) are secured on the property and inventory of the Group as well as shares of one of the Group's subsidiaries (Note 31). The net assets of the subsidiary that secure the loan are US$ 170,232 (2009: US$ 81 865). The carrying amount of pledged inventory and property, plant and equipment is disclosed in Notes 11 and 13, respectively.

In 2010 the Group repurchased 19,89% of the shares in its subsidiary OJSC Izhorskiye Zavody for US$ 5 712 under a contract with a related party which was concluded in 2009 and specified that shares should be re-purchased within one year.

This transaction has been accounted in 2009 as a secured financing transaction in the consolidated financial statements with the shares pledged under sale and repurchase agreements accounted for as investments in subsidiaries and a liability recognised for the fair value of the proceeds received. The difference between the fair value of the proceeds received and the repurchase price represents interest expense and is recognised in the consolidated income statement over the terms of the repurchase agreement using the effective interest method.

Structured transaction

During the year ended 31 December 2010, a subsidiary of the Group participated in a structured transaction designed to enable an intermediate parent company of the Group to acquire an 80% ownership interest in a business (the "target") from a third party. As at 31 December 2010, this structured transaction is incomplete and, as a consequence, the Group has outstanding interest bearing notes payable that have been issued to a third party with a carrying amount of US$ 115 million. The Group issued these notes to finance the acquisition of the target on behalf of the intermediate parent company. The Group has used a portion of the proceeds of the notes to acquire a direct 20% ownership interest in the target which has been recorded at cost within other current financial assets. In accordance with the terms and conditions of the notes, the remaining proceeds were loaned by the Group to three other third party entities, which in accordance with agreed action plan were used to acquire a 20% ownership interest in the target. These interest bearing loans have a repayment date of 30 June 2011. As at 31 December 2010, these loans receivable have a carrying amount of US$ 86 million.

Subsequent to the reporting date, the Group has entered into preliminary Sale and Purchase Agreements with the other three owners that commit them to each sell their 20% stakes to the Group before 30 June 2011, subject to receiving the appropriate anti-monopoly approvals. The purchase price in the Sale and Purchase agreements has been determined so that it will be equal to that of the carrying amount of the principal and accrued interest of the loan on the settlement date.

In accordance with the terms and conditions of the notes, as the Group acquires shares in the target, these are immediately pledged as security for the notes. The Group is not permitted to sell, transfer or pledge these shares to other parties without the prior written consent of the note holder. As at 31 December 2010, the carrying value of the shares pledged was USD 29 million.

The notes issued by the Group include a call and put option feature that allow the note holder or the Group to exchange each note for a pre-defined number of shares in the target subject to having the appropriate regulatory approvals. The aggregate exchange value of the notes issued is equal to the 80% ownership interest in the target that is expected to be acquired. Once the Group holds an 80% interest in the target, the note holder, or another party it designates, is expected to apply for anti-monopoly approval to acquire the target. Once this approval has been obtained, the option is then expected to be exercised by either the note holder or the Group and, at that time, the shares will be transferred as full and final settlement of the notes (including the principal and the accrued interest at that time).

Prior to the options expiring, the notes require that any distributions made by the target must be transferred by the Group to the note holder. Consequently, at no time during the option exercise period will the Group be able to control the operating activities of the target so as to obtain the benefits.

The notes include a clause that accelerates the maturity of the notes to 30 September 2011 if the Group has not acquired the 80% ownership interest by 30 June 2011. Management believes that the terms and conditions of the notes will be amended to defer the date that triggers the accelerated maturity if the Group is not expected to have completed its acquisition and obtained necessary approvals for the 80% ownership interest by 30 June 2011.

(in thousands of US dollars unless otherwise stated)

18. Borrowings (Continued)

In the unlikely event that the Group does not receive anti-monopoly approval to take control of an 80% ownership interest in the target, there is a risk that the existing owners may not be able to immediately settle the loans which were provided by the Group for the purpose of purchasing the shares, and may have to sell the shares to another party to finance the repayment. Delays in collection of the loans receivable may require the Group to obtain additional financing to repay the notes by the accelerated due date. Management believes that in the unlikely event this were to happen, the immediate Parent Company would provide the necessary financial support to the Group and take appropriate steps to unwind the structured transaction in a manner which would not result in negative financial consequences for the Group.

As at 31 December 2010 long-term loans had the following maturity profile:

	2012	**2013 and after**	**Total**
RR denominated fixed rate	-	67 576	67 576
RR denominated floating rate	21 065	10 151	31 216
EUR denominated fixed rate	-	59 731	59 731
EUR denominated floating rate	-	5 738	5 738
	21 065	**143 196**	**164 261**
Long-term finance lease liabilities	-	1 025	1 025
Non-convertible bonds	28 235	-	28 235

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

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

During 2010 the Group settled finance lease liabilities for total consideration US$ 87 758.

Finance lease liabilities are payable as follows:

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

19. Other Long-Term Liabilities

	31 December 2010	**31 December 2009**
Trade payables, long-term	3 983	4 732
Billings in excess of cost and recognized income - non-current portion	-	1 124
Other long-term liabilities	1 629	1 540
	5 612	**7 396**

(in thousands of US dollars unless otherwise stated)

20. Equity

	Number of outstanding shares (thousands)		Number of treasury shares (thousands)		Share capital		Treasury shares	
	Preference shares	Ordinary shares	Preference shares	Ordinary shares	Preference shares	Ordinary shares	Preference shares	Ordinary shares
As at 1 January 2009	**2 750**	**35 480**	**(2 720)**	**(4 551)**	**28**	**368**	**(23 951)**	**(18 082)**
Currency translation	-	-	-	-	(1)	(11)	685	516
As at 31 December 2009	**2 750**	**35 480**	**(2 720)**	**(4 551)**	**27**	**357**	**(23 266)**	**(17 566)**
Currency translation	-	-	-	-	-	(2)	178	134
As at 31 December 2010	**2 750**	**35 480**	**(2 720)**	**(4 551)**	**27**	**355**	**(23 088)**	**(17 432)**

Share capital

As at 31 December 2010 the authorized number of ordinary and preference shares totalled 70 700 thousand and 2 750 thousand (31 December 2009: 70 700 thousand and 2 750 thousand), respectively, both with a nominal value per share of RR 0,1.

As at 31 December 2010 the issued number of ordinary and preference shares totalled 35 480 thousand and 2 750 thousand (31 December 2009: 35 480 thousand and 2 750 thousand).

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

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

Dividends

Russian statutory financial statements are the basis for the Company's profit distribution and other appropriations. The basis of distribution is defined by the Russian legislation as a company's undistributed profit. The undistributed profit recognized in the published Russian statutory financial statements of the Company as at 31 December 2010 amounts to US$ 7 048 (31 December 2009: US$ 5 097).

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

21. Construction Contracts

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

	Year ended 31 December 2010	Year ended 31 December 2009
Contract revenue	293 898	375 703
Contract costs	(267 336)	(272 823)
Gross margin	**26 562**	**102 880**

The Group's financial position with respect to construction contracts is disclosed in Notes 10, 17 and 19.

Construction contracts in progress:

	Year ended 31 December 2010	Year ended 31 December 2009
Contract costs incurred and recognized profits (less losses) to date	1 460 163	1 200 082
Advances received on construction contracts	72 687	29 883

(in thousands of US dollars unless otherwise stated)

21. Construction Contracts (Continued)

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

Retentions due from customers with a face value of US$ 16 508 as at 31 December 2010 (31 December 2009: US$ 16 508) have not been recognised as they cannot be reliably measured due to significant uncertainty in respect of the probability and timing of collection of these amounts receivable.

As at 31 December 2010, the Group has a number of construction contracts concluded with a head contractor in Russia that is responsible for the construction of a Nuclear Power Plant in Eastern Europe. These construction contracts include clauses that permit the head contractor to cancel the contracts with the Group under certain circumstances. There have been a number of recent reports in the media concerning the ongoing negotiations between the head contractor and the final customer. These reports indicate that there are certain factors that have created some uncertainty as to whether these construction contracts will be finally completed or not. These factors include reports that the head contractor and the final customer are:

- currently renegotiating the final pricing terms for the construction of the Nuclear Power Plant
- negotiating for an additional safety review to be performed prior to reaching final agreement to commit to the commencement of the construction of the Nuclear Power Plant (in part to address concerns raised by the public and regulators in response to the recent Fukishima nuclear accident in Japan).

Based on the above factors, management has assessed the likelihood that these construction contracts could be cancelled by the head contractor as possible. The likelihood has been assessed as less than probable based on management’s understanding from reports in the media that the final customer would likely incur significant penalties for cancellation of the contract that would be payable to the head contractor. In addition, it is management’s understanding that the final customer currently has limited cost-effective alternatives to Nuclear energy that are able to deliver the required growth in reliable electric generation capacity that is needed to meet demand in the reasonably near future.

In the event that the construction contracts referred to above are cancelled after the reporting date, the Group may incur a loss of up to US$ 39,088.

22. Cost of Sales

	Year ended 31 December 2010	Year ended 31 December 2009
Changes in inventories of finished goods and work in progress	(12 937)	5 215
Materials and components used	267 167	201 432
Labour costs	122 849	105 809
Services, including sub-contracting costs	161 259	118 566
Gas and fuel	48 537	35 658
Depreciation	35 480	20 387
Amortisation of intangible assets	2 069	1 623
Change in provision for obsolete inventory	(13 272)	15 728
Other	44 256	3 698
Total cost of sales	**655 408**	**508 116**

Total labour costs amounted to US$ 174 023 (2009: US$ 154 872).

	Year ended 31 December 2010	Year ended 31 December 2009
Short-term employee benefits	155 336	144 766
Termination payments	1 574	1 688
Contributions to the State Pension Fund	17 113	8 418
Total labour costs	**174 023**	**154 872**

(in thousands of US dollars unless otherwise stated)

23. Selling Expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Transportation	4 326	7 431
Services	10 063	5 932
Labour costs	10 108	9 724
Other	2 282	3 048
Total selling expenses	**26 779**	**26 135**

24. General and Administrative Expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Labour costs	41 066	39 339
Services	18 367	15 396
Taxes	3 695	3 218
Depreciation	2 106	2 197
Amortisation of intangibles	1 976	1 620
Administration overheads	3 756	9 239
Total general and administrative expenses	**70 966**	**71 009**

25. Other Operating Income and Expense

Other Operating Income

	Year ended 31 December 2010	Year ended 31 December 2009
Gain on disposal of property, plant and equipment	4 268	265
Gain from operating leasing	1 450	1 339
Gain on disposal of other assets	215	3
Gain on derecognition of financial liability	396	114
Gain from disposal of securities	-	15 025
Gain impairment reversal	2 881	-
Other income	36	946
Total other operating income	**9 246**	**17 692**

Other Operating Expense

	Year ended 31 December 2010	Year ended 31 December 2009
Impairment of fixed and intangible assets	-	(3 103)
Rent	(3 406)	(1 965)
Loss from impairment of goodwill	(936)	-
Loss from impairment other non-current assets	(2 747)	-
Fines and penalties under agreements	(792)	(6 451)
Loss on disposal of securities	(253)	(207)
Change in provision for doubtful accounts receivable and loans issued	(7 571)	(280)
Other losses	(2 884)	(7 965)
Total other operating expenses	**(18 589)**	**(19 971)**

26. Finance Income and Expense

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income on loans issued	9 723	9 677
Dividend income from other investments	-	46
Net foreign exchange gain	2 633	-
Finance income	**12 356**	**9 723**
Interest expense on financial liabilities measured at amortised cost	(54 969)	(64 766)
Net foreign exchange loss	-	(4 109)
Finance expense	**(54 969)**	**(68 875)**
Net finance expense recognised in statement of comprehensive income	**(42 613)**	**(59 152)**

(in thousands of US dollars unless otherwise stated)

26. Finance Income and Expense (Continued)

Finance expenses, recognized directly in other comprehensive income

	Year ended 31 December 2010	Year ended 31 December 2009
Effective portion of gains or losses on hedging instruments used in cash flow hedges, net of tax	3 272	2 618
Gains or losses on hedging instruments transferred to profit or loss, net of tax	-	12 613
Foreign currency translation differences for foreign operations	(43 308)	591
Income tax on income and expense recognised directly in other comprehensive income	(616)	(3 064)
Finance income/(expenses) recognised directly in other comprehensive income, net of tax	**(40 652)**	**12 758**
Attributable to:		
Shareholders of the Company	(40 418)	17 059
Non-controlling interest	(234)	(4 301)
Finance expenses recognised directly in other comprehensive income, net of tax	**(40 652)**	**12 758**

27. Income Tax

	Year ended 31 December 2010	Year ended 31 December 2009
Income tax expense – current	(6 646)	(5 749)
Deferred tax income – origination and reversal of temporary differences	13 770	6 611
Income tax benefit	**7 124**	**862**

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

	Year ended 31 December 2010	Year ended 31 December 2009
Loss before taxation from continuing operations	(59 105)	(13 414)
Theoretical tax charge at statutory rate of 20%	(11 821)	(2 638)
Effect of different tax rates in other countries	1 070	80
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable and non-deductible items	3 627	1 741
Income tax benefit	**(7 124)**	**(862)**

The statutory income tax rate for companies of the Group registered in Russian Federation for the years 2010 and 2009 was 20%.

(in thousands of US dollars unless otherwise stated)

27. Income Tax (Continued)

The statutory income tax rate for subsidiaries of the Group registered in Czech Republic for the 2010 and 2009 assessment periods was 19% and 20%, respectively.

	31 December 2009	Acquisition of subsidiaries	Disposal of subsidiaries	Differences recognition and reversal	Exchange difference	Deferred tax recognised on other comprehensive income	31 December 2010
Tax effects of deductible temporary differences:							
Property, plant and equipment	3 475	-	(1 438)	(1 211)	(182)	-	644
Intangible assets	-	-	-	201	(1)	-	200
Accounts payable and accruals	4 469	-	-	5 262	(53)	-	9 678
Inventories	12 728	-	-	(4 666)	(81)	-	7 981
Provision for inventory	10 844	-	(1 953)	(5 129)	(368)	-	3 394
Accounts receivable	3 646	-	(34)	6 735	(71)	-	10 276
Provision for impairment of receivables	2 391	20	-	(1 610)	(24)	-	777
Tax loss carried forward	6 603	-	(23)	7 976	(79)	-	14 477
Other	4 051	2	(123)	282	(128)	-	4 084
Total deferred tax assets	**48 207**	**22**	**(3 571)**	**7 840**	**(987)**	**-**	**51 511**
Set off of tax	(28 015)	-	-	-	-	-	(27 468)
Net deferred tax assets	**20 192**						**24 043**
Tax effects of taxable temporary differences:							
Property, plant and equipment	(10 848)	(479)	2 298	(6 443)	450	-	(15 022)
Intangible assets	(2 554)	(5)	2 204	105	250	-	-
Inventories	(7 376)	(13)	-	220	163	-	(7 006)
Accounts receivable	(15 548)	-	-	7 840	165	-	(7 543)
Provision for impairment of receivables	(6 582)	-	-	619	50	-	(5 913)
Provision for repairs	(6 392)	-	5 809	(42)	625	-	-
Accounts payable	(269)	-	22	(108)	18	-	(337)
Other	(5 103)	-	2	4 282	224	(616)	(1 211)
Total deferred tax liabilities	**(54 672)**	**(497)**	**10 335**	**6 473**	**1 945**	**(616)**	**(37 032)**
Set off of tax	28 015	-	-	-	-	-	27 468
Net deferred tax liabilities	**(26 657)**						**(9 564)**

(in thousands of US dollars unless otherwise stated)

27. Income Tax (Continued)

Comparative information for year 2009:

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

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

As at 31 December 2010 the Group has not recognized a deferred tax liability in respect of US$ 32 431 (31 December 2009: US$ 39 703) of temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

(in thousands of US dollars unless otherwise stated)

28. Provisions for Liabilities and Charges

	Provision for loss-making contracts	Provision for warranties	Provision for legal claims	Provision for penalty	Other provisions	Total
As at 1 January 2010	**-**	**12 275**	**1 164**	**3 677**	**600**	**17 716**
(Used)/ charge	23 113	(1 061)	74	12 184	16	34 326
Disposal of subsidiaries	-	(4 700)	(1 050)	-	-	(5 750)
Exchange differences	(82)	(562)	(113)	(69)	(26)	(852)
As at 31 December 2010	**23 031**	**5 952**	**75**	**15 792**	**590**	**45 440**
Less amount included in other long-term liabilities	-	(2 270)	-	-	-	(2 270)
As at 31 December 2010	**23 031**	**3 682**	**75**	**15 792**	**590**	**43 170**

Comparative information for year 2009:

	Provision for loss-making contracts	Provision for warranties	Provision for legal claims	Provision for penalty	Other provisions	Total
As at 1 January 2009	**-**	**2 909**	**-**	**-**	**3 096**	**6 005**
(Used)/ charge	-	7 342	1 097	3 506	(2 044)	9 901
Exchange differences	-	2 024	67	171	(452)	1 810
As at 31 December 2009	**-**	**12 275**	**1 164**	**3 677**	**600**	**17 716**
Less amount included in other long-term liabilities	-	(2 133)	-	-	-	(2 133)
As at 31 December 2009	**-**	**10 142**	**1 164**	**3 677**	**600**	**15 583**

Provision for loss-making contracts

Provisions for expected losses on loss-making contracts are recognised when the expected revenues are lower than the expected costs to complete. At the end of the year 2010 there is provision for loss-making provision of US$ 23 031.

Provision for warranties

The Group provides warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of US$ 5 952 (2009: US$ 12 275) has been recognised as at 31 December 2010 for expected warranty claims based on past experience of the level of repairs and returns.

Provision for legal claims

The amounts shown comprise gross provisions in respect of certain legal claims brought against the Group by customers. The balance as at 31 December 2010 is US$ 75 (2009: 1 164 US$).

Provision for penalty

The amounts shown comprise gross provisions in respect of penalties in connection with the late delivery of projects to customers. The balance as at 31 December 2010 is 15 792 US$ (2009: 3 677 US$).

29. Contingencies, Commitments and Operating Risks

Capital commitments

As at 31 December 2010 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for US$ 115 050 (31 December 2009: US$ 32 665).

Long-term contracts

For contingencies and operating risks related to long-term construction contracts, see note 4 and 21.

Taxation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Insurance policies

The Group insures all significant property and work-in-progress and shipments in relation to significant contracts. As at 31 December 2010, most of the Group's property is insured.

Environmental matters

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

Legal proceedings

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

Guarantees

The Group has guaranteed loans issued to related parties by intermediate parent. The total amount of guarantees is US$ 29 120 (31 December 2009: US$ 44 022).

The Group's borrowings were secured by third party guarantees and by intermediate parent company in the amount of US$ 85 753 (31 December 2009: US$ 66 941).

(in thousands of US dollars unless otherwise stated)

30. Earnings per Share

Earnings per share is calculated by dividing the net income attributable to participating shareholders by the weighted average number of ordinary shares in issue during the period, excluding the average number of ordinary shares purchased by the Group and held as treasury shares (Note 20).

Earnings per share from continuing operations are calculated as follows:

Basic earnings per share

	Year ended 31 December 2010	Year ended 31 December 2009
Weighted average number of ordinary shares outstanding (thousands)	35 480	35 480
Adjusted for weighted average number of treasury shares (thousands)	(4 551)	(4 551)
Weighted average number of ordinary shares in issue (thousands)	30 929	30 929
Loss from continuing operations attributable to the ordinary equity holders of the parent entity	(22 615)	(8 851)
Loss per share from continuing operations	(0,7312)	(0,2862)
Profit/(loss) from discontinued operations attributable to the ordinary equity holders of the parent entity	49 643	(4 478)
Profit/(loss) per share from discontinued operations	1,6051	(0,1448)
Profit/(loss) for the year attributable to the Group's equity holders	27 028	(13 329)
Basic gain/(loss) per share	0,8739	(0,4310)

Diluted earnings per share

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

31. Principal Subsidiaries

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

Entity	Country of Incorporation	Activity	31 December 2010 % of share capital	31 December 2009 % of share capital
OJSC Izhorskiye Zavody ("Izhorskiye Zavody") [1]	Russia	Production of equipment for nuclear power plants and mining equipment	59,9	80,1
OMZ SpecStal ("SpecStal") LLC[4]	Russia	Production of specialty steels	50,4	100
OMZ Gornoe oborudovanie i tehnologii ("GoiT") LLC	Russia	Engineering and sales of mining equipment	100	100
CJSC Komplekt-Atom-Izhora	Russia	Engineering and installation of nuclear power plant equipment	100	100
IZ-Kartex LLC [2]	Russia	Production of mining equipment	59,9	80,1
OMZ LLC	Russia	Corporate services	100	100
IZ-ZMK LLC [2]	Russia	Production of steel constructions	59,9	80,1
OMZ LP LLC	Russia	Production of steel mouldings	50,4	84,2
ŠKODA JS a.s.	Czech Republic	Production of equipment for nuclear power plants	100	100
PILSEN STEEL s.r.o. [3]	Czech Republic	Production of specialty steels	-	100
LLC Izhorskiye svarochnyie materialy[5]	Russia	Production of drilling, mining and metallurgical equipment	59,9	-

[1] 40% of the Groups' shares in Izhorskiye Zavody are pledged as collateral under long-term bank loan denominated in RR (note 18). The Group's ownership interest in its subsidiary OJSC «Izhorskiye Zavody» was diluted as a consequence a shares issue (Note 32).

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

[3] In July 2010 the Group disposed of its 100 % share in subsidiaries PILSEN STEEL s.r.o. and Pilsen Estate s.r.o. for 120 600 thousand EUR (Note 32).

[4] The Group's ownership interest in its subsidiary OMZ SpecStal was diluted as a consequence of the Group parent company made a contribution into the share capital of subsidiary(Note 32).

[5] During 2010, the Group acquired an additional 81 % ownership interest in «LLC Izhorskiye svarochnyie materially», to increase its shareholding to 100 % and obtain control over the entity (Note 32).

(in thousands of US dollars unless otherwise stated)

32. Business Combinations and Disposals

Acquisition of subsidiaries in 2010

On 12 April 2010 the Group obtained control of “LLC Izhorskiye svarochnyie materially”, which is engaged in the manufacture of products including wire (electrodes for welding) and pottery (gumboils), by acquiring the remaining 81% that it did not previously own from an entity under common control.

From the date of acquisition to 31 December 2010 “LLC Izhorskiye svarochnyie materially” contributed revenue of US$ 2 582 and incurred loss of US$ 128.

If the acquisition had occurred on 1 January 2010, management estimates that consolidated revenue would have been US$ 746 720, and consolidated loss for the year would have been US$ (2 262). In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2010.

The following summarizes the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

	Recognised fair value on acquisition
Cash and cash equivalents	3
Trade and other receivables	548
Advances to suppliers	48
Income tax receivable	7
Inventories	772
Property, plant and equipment	3 743
Intangible assets	27
Deferred tax assets	22
Trade and other payables	(786)
Short-term borrowings	(759)
Deferred tax liabilities	(497)
Net identifiable assets, liabilities and contingent liabilities	**3 128**
Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilities of the acquire	232
Fair value of the subsidiary net assets acquired	**3 360**
Goodwill	936
Total acquisition	**4 296**
Less: acquisition cost of the acquired entity prior to obtaining control	(850)
Less: cash and cash equivalents held by the acquired subsidiary	(3)
Foreign exchange	193
Outflow cash and cash equivalents at acquisition	**3 636**

Disposal of subsidiaries in 2010

On 27th July 2010 the Group disposed of its investment in Pilsen Steel s.r.o.

The Group loss for the year includes the operating loss from Pilsen Steel s.r.o through to the date of disposal of US$ 13 303 and the gain on disposal of US$ 53 172.

(in thousands of US dollars unless otherwise stated)

32. Business Combinations and Disposals (Continued)

Disposals has influenced on the Group's assets and liabilities on the date of disposal as follows:

	Book value at the date of disposal
Cash and cash equivalents	950
Trade and other receivables	29 120
Advances to suppliers	1 986
Income tax receivable	1 157
Inventories	57 325
Property, plant and equipment	77 502
Intangible assets	11 878
Trade and other payables	(53 577)
Short-term borrowings	(13 541)
Deferred tax liabilities	(8 281)
Other long-term liabilities	(383)
Net identifiable assets and liabilities	**104 136**
Gain on disposal of disposal group constituting the discontinued operation	53 172
Currency translation reserve	(27 085)
Cost to sell of subsidiary	1 878
Foreign exchange	370
Total compensation for the assets disposed of	**132 471**
Less: Compensation received in the form of the promissory note	(14 097)
Less: cash and cash equivalents held by the subsidiary disposed of	(950)
Proceeds from disposal	**117 424**

The Group recognized a gain of US$ 53 172 on the disposal of the subsidiary in the consolidated statement of comprehensive income as a gain on disposal of discontinued operation.

The table below presents the analysis of results in respect of discontinued operations:

	Year ended 31 December 2010	Year ended 31 December 2009
Revenue	75 429	213 696
Other income/expenses	(88 024)	(195 177)
Profit/(loss) before income tax	**(12 595)**	**18 519**
Income tax expense	(708)	(784)
Profit/loss from discontinued operation	**(13 303)**	**17 735**

Pilsen Estate s.r.o.

On 27th July 2010 the Group disposed of its investment in Pilsen Estate s.r.o.

The Group loss for the year includes the operating profit from Pilsen Estate s.r.o through to the date of disposal of US$ 1 299 and the gain on disposal of US$ 8 475.

The disposal of the subsidiary had the following effect on the Group's assets and liabilities at the date of disposal:

	Book value at the date of disposal
Cash and cash equivalents	137
Trade and other receivables	3 571
Income tax receivable	189
Other current financial assets	1 459
Property, plant and equipment	9 168
Deferred tax assets	1 439
Trade and other payables	(93)
Net identifiable assets and liabilities	**15 870**
Gain on disposal of disposal group constituting the discontinued operation	8 475
Currency translation reserve	(440)
Foreign exchange	28
Total compensation for the assets disposed of	**23 933**
Less: cash and cash equivalents held by the subsidiary disposed of	(137)
Proceeds from disposal	**23 796**

The Group recognized a gain of US$ 8 475 on the disposal of the subsidiary in the consolidated statement of comprehensive income as a gain on disposal of discontinued operation.

(in thousands of US dollars unless otherwise stated)

32. Business Combinations and Disposals (continued)

The table below presents the analysis of results and information in respect of discontinued operations:

	Year ended 31 December 2010	Year ended 31 December 2009
Other income/expenses	1 025	(3 706)
Profit/(loss) before income tax	**1 025**	**(3 706)**
Income tax	274	1 348
Profit/(loss) from discontinued operation	**1 299**	**(2 358)**

Disposals of non-controlling interests

OJSC Izhorskiye Zavody

During September 2010, the Group's ownership interest in OJSC Izhorskiye Zavody was diluted from 80,1 % to 59,9% as a consequence of the subsidiary issuing 560,000 additional ordinary shares directly to the Group's immediate parent company. These shares were issued in exchange for cash of US$ 59 015. The carrying amount of OJSC Izhorskiye Zavody's net assets, including the cash received from the share issue, on the date of the transaction was US$ 133 829. As a result of this transaction, non-controlling interests increased by US$ 38 677 and the Group recognised the surplus between the cash received and the change in non-controlling interests of US$ 20 195 directly in equity as an increase in retained earnings.

OMZ SpecStal LLC

During August 2010, the Group's ownership interest in OMZ SpecStal LLC was diluted from 100 % to 50,4% as a consequence of the subsidiary allocating a charter capital increase directly to the Group's intermediate parent company in exchange for cash. This allocation of capital was in exchange for cash consideration of US$ 93 592. The carrying amount of OMZ SpecStal LLC's, including the cash received from the capital increase, on the date of the transaction was US$ 191 160. As a result of the transaction, non-controlling interests increased by US$ 94 888 and the Group recognised the deficit between the cash received and the change in non-controlling interests of US$ 2 687 directly equity as a decrease in retained earnings.

Comparative information for the 2009 year.

During the year ended 31 December 2009 the Group has not acquired any new businesses.

Disposals in 2009

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

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

Effect of disposals on cash flow from investing activities

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

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

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

(in thousands of US dollars unless otherwise stated)

32. Business Combinations and Disposals (continued)

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

	Period ended 21 December 2009
Revenue	114 252
Operating and other expenses	(155 427)
Loss before tax	**(41 175)**
Income tax expense	2 948
Unrecognized loss	258
Loss attributable to the Group	**(37 969)**

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

Investment in Uralmash CJSC as at 31 December 2008	**40 996**
Loss attributable to the Group	(37 969)
Exchange difference	(3 028)
Investment in Uralmash CJSC as at 31 December 2009	**-**

33. Financial Risk and Capital Management

Financial risk factors

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

Managemnet has overall responsibility for the establishment and oversight of the Group's risk management framework.

(a) Market risk

(i) Foreign exchange risk

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

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

In addition subsidiary company SKODA JS s.r.o. applies standard of derivative hedging instruments in their control of foreign currency risk which include currency forwards and swaps as well as structured currency products. The maturity of these derivative contracts is intended to be consistent with the expected future foreign currency cash flows.

Subsequent to the reporting date, the Russian Ruble and the Czech Koruna have increased in value by approximately 7% and 8% respectively, against the US$. Management of the Group has not completed its analysis of the effect on the Group's operations and financial position; however, the sensitivity analysis provided below shows the effects of reasonably possible changes in foreign exchange rates on the Group's financial assets and liabilities as at the reporting date.

(in thousands of US dollars unless otherwise stated)

33. Financial Risk ad Capital Management (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk

				31 December 2010
	EUR weakening by 25%	EUR strengthening by 25%	US$ weakening by 25%	US$ strengthening by 25%
Income statement				
Revaluation of cash	39 264	(39 264)	2	(2)
Revaluation of trade receivables	30 287	(30 287)	2 358	(2 358)
Revaluation of payables	(20 676)	20 676	(4 578)	4 578
Revaluation of loans issued	14 974	(14 974)	-	-
Short-term borrowings	(255)	255	-	-
Long-term borrowings	(16 367)	16 367	-	-
Derivative financial assets	232	(232)	-	-
Other comprehensive income				
Derivative financial assets and liabilities	(664)	664	-	-

Comparative information for year 2009:

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

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

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

(iii) Derivatives

Nominal and fair value of derivatives:

	Nominal value 31 December 2010		Nominal value 31 December 2009		Fair value 31 December 2010		Fair value 31 December 2009	
	Derivatives with positive fair value	Derivatives with negative fair value	Derivatives with positive fair value	Derivatives with negative fair value	Positive	Negative	Positive	Negative
Hedging instruments								
Currency derivatives	38 632	11 917	8 311	95 426	762	(53)	285	(1 954)
Trading instruments								
Currency derivatives	25 144	13 394	2 094	-	164	(191)	228	-

(in thousands of US dollars unless otherwise stated)

33. Financial Risk ad Capital Management (Continued)

(a) Market risk (Continued)

(iii) Derivatives (Continued)

Volume of hedged cash flows:

Volume of hedged cash flows	Within 1 year		1 – 5 years	
Balance as at 31 December 2010	**Volume of hedged cash flows**	**Fair value of hedging derivatives**	**Volume of hedged cash flows**	**Fair value of hedging derivatives**
Currency risk exposure				
Hedging of receivables	42 561	746	7 988	(37)
Total	**42 561**	**746**	**7 988**	**(37)**

Comparative information for year 2009:

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

(b) Credit risk

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

The Group has a decentralized credit risk management function that is performed on an individual company basis. Monitoring of credit quality of customers is performed by analyzing whether they are in a difficult financial position or subject to bankruptcy. Customers within the equipment for nuclear power plants segment are government agencies or companies controlled by government. As at 31 December 2010 trade receivables and accounts due from customers for contract work related to equipment for nuclear power plants segment amounted to US$ 101 843 (31 December 2009: US$ 141 504). Although collection of receivables can be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 10).

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

The table summarizes the maximum exposure to credit risk:

Carrying amount as at 31 December 2010	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
Cash and cash equivalents	176 057	-	-	176 057
Trade receivables	82 729	8 133	6 547	97 409
Accounts due from customers for contract work	101 843	-	-	101 843
Other receivables	28 302	9	15 141	43 452
Short-term loans issued	110 450	2 812	2 034	115 296
Promissory notes	111	-	7 788	7 899
Positive fair values of financial derivatives	926	-	-	926
Long-term loans issued	59 894	-	250	60 144
Available for-sale investments	63 495	-	-	63 495
Restricted cash	7 321	-	-	7 321
	630 678	**10 954**	**31 760**	**673 392**

(in thousands of US dollars unless otherwise stated)

33. Financial Risk ad Capital Management (Continued)

(b) Credit risk (Continued)

Comparative information for year 2009:

Carrying amount as at 31 December 2009	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
Cash and cash equivalents	16 311	-	-	16 311
Trade receivables	207 415	15 427	15 896	238 738
Accounts due from customers for contract work	141 504	-	-	141 504
Other receivables	12 328	-	13 763	26 091
Short-term loans issued	22 371	-	-	22 371
Promissory notes	-	-	8 119	8 119
Positive fair values of financial derivatives	513	-	-	513
Long-term loans issued	68 307	-	-	68 307
Available-for-sale investments	36 296	-	-	36 296
Restricted cash	13 485	-	-	13 485
	518 530	**15 427**	**37 778**	**571 735**

In addition to the credit exposure disclosed above for recognised assets, the Group also has a gross credit exposure for guarantees on loans to third and related parties in the total amount of US$ 48 544 (31 December 2009: US$ 27 490).

Concentration of credit risk.

Current financial assets include short-term loans due from three borrowers that owe in aggregate US$ 86 130 in connection with the structured transaction (Note 18) as well as trade receivables and loans owed by two related parties that in the aggregate have a carrying amount of US$ 47 527 (31 December 2009: US$ 21 856).

(c) Liquidity risk

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

Prudent liquidity risk management includes maintaining sufficient cash and availability of funding from an adequate amount of committed credit facilities. Group maintains flexibility in funding by maintaining availability under committed credit lines. As at 31 December 2010 the Group has unused credit facilities in the amount of US$ 415 521 (31 December 2009: US$ 261 650).

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

The maturity analysis of financial liabilities other than derivatives as at 31 December 2010 is as follows:

	Less than 1 year	1-2 years	2-5 years	More than five year	Total
Trade and other payables	222 589	-	3 983	-	226 572
Short-term borrowings	268 184	-	-	-	268 184
Long-term borrowings	-	21 065	144 222	-	165 287
Bonds	-	28 235	-	-	28 235
Bond coupon	13 233	-	-	-	13 233
Guarantees	48 544	-	-	-	48 544
Other interest payments	40 002	29 499	62 980	-	132 481
	592 552	**78 799**	**211 185**	**-**	**882 536**

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

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

(in thousands of US dollars unless otherwise stated)

33. Financial Risk ad Capital Management (Continued)

(c) Liquidity risk (Continued)

Contractual maturity obligation for derivatives as at 31 December 2010:

	Total	Less than 3 months	3 - 12 months	1 - 5 years
Derivatives with positive fair value				
Currency derivatives				
Inflow of financial resources	64 783	7 657	57 126	-
Outflow of financial resources	(63 777)	(7 465)	(56 312)	-
Derivatives with negative value				
Currency derivatives				
Inflow of financial resources	25 081	10 625	6 512	7 944
Outflow of financial resources	(25 311)	(10 775)	(6 548)	(7 988)

Contractual maturity obligation for derivatives as at 31 December 2009:

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

The contractual maturities of guarantee obligations of US$ 48 544 (2009: US$ 27 490) are between 2013-2022 (31 December 2009: 2012-2014).

(d) Capital risk management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-redeemable preference shares and non-controlling interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

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

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

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

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

34. Fair Value of Financial Instruments

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

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

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

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

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

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

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

(in thousands of US dollars unless otherwise stated)

35. Reconciliation of Classes of Financial Instruments with Measurement Categories

The following tables provide a reconciliation of classes of financial assets with the measurement categories as at 31 December 2010:

	Loans and receivables	Available for sale financial assets	Assets designated at FVTPL *	Financial derivatives - hedging	Total
ASSETS					
Cash and cash equivalents (Note 9)					
Cash on hand and balances with the bank	151 153	-	-	-	151 153
Cash equivalents	24 904	-	-	-	24 904
Trade and other receivables (Note 10)					
Trade receivables	90 862	-	-	-	90 862
Accounts due from customers for contract work	101 843	-	-	-	101 843
Forward foreign exchange contracts – cash flow hedges	-	-	-	926	926
Other receivables	28 311	-	-	-	28 311
Other current financial assets (Note 12)					
Short-term loans issued	113 262	-	-	-	113 262
Available-for-sale investments	28 710	-	-	-	28 710
Restricted cash	606	-	-	-	606
Promissory notes	111	-	-	-	111
Other	510	-	-	-	510
Other non-current financial assets (Note 15)					
Long-term loans issue	59 894	-	-	-	59 894
Available-for-sale investments	-	34 785	-	-	34 785
Non-current accounts receivables	4 815	-	-	-	4 815
Total financial assets	**604 981**	**34 785**	**-**	**926**	**640 692**
Non-financial assets	**-**	**-**	**-**	**-**	**820 184**
Total assets	**604 891**	**34 785**		**926**	**1 460 876**

* FVTPL = fair value through profit and loss

All the Group's financial liabilities are carried at amortised cost except for currency derivatives used as hedging instruments which are carried at fair value of US$ 210 and included in trade and other accounts payable.

(in thousands of US dollars unless otherwise stated)

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

Comparative information for 2009:

	Loans and receivables	Available for sale financial assets	Assets designated at FVTPL *	Financial derivatives - hedging	Total
ASSETS					
Cash and cash equivalents (Note 9)					
Cash on hand and balances with the bank	16 195	-	-	-	16 195
Cash equivalents	116	-	-	-	116
Trade and other receivables (Note 10)					
Trade receivables	207 415	-	-	-	207 415
Accounts due from customers for contract work	141 504	-	-	-	141 504
Forward foreign exchange contracts – cash flow hedges	-	-	228	285	513
Other receivables	12 328				12 328
Other current financial assets (Note 12)					
Short-term loans issued	22 371	-	-	-	22 371
Restricted cash	13 485	-	-	-	13 485
Other non-current financial assets (Note 15)					
Long-term loans issued	68 307	-	-	-	68 307
Available-for-sale investments	-	36 296	-	-	36 296
Non-current accounts receivables	1 953				1 953
Total financial assets	**483 675**	**36 296**	**228**	**285**	**520 484**
Non-financial assets		**-**	**-**	**-**	**835 002**
Total assets	**483 675**	**36 296**	**228**	**285**	**1 355 501**

* FVTPL = fair value through profit and loss

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