

OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in thousand of Russian Rubles)

6. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended 31 December 2008 and 2007 have been calculated on the basis of the net profit for the year and the weighted average number of common shares in issue during the year.

The calculation of basic and fully diluted earnings per share is based on the following information:

	Year ended	
	31 December 2008	31 December 2007 (restated)
Profit for the year attributable to equity holders of the parent	271,894	549,855
Weighted average number of shares (in shares)	504,389,264	504,389,264
Basic and diluted earnings per share (Russian Rubles)	0.539	1.090

7. REVENUE

Revenue for the years ended 31 December 2008 and 2007 consisted of the following:

	Year ended	
	31 December 2008	31 December 2007 (restated)
By product		
Measuring stations	2,148,996	1,303,413
Bush block pump stations	530,301	1,377,658
Spare parts	410,567	392,388
Blocks	389,440	548,717
Oil, oil products, water and gas fiscal metering units	285,177	399,926
Concurrent engineering	162,488	55,937
Maintenance of equipment	114,454	59,554
Module-type installations	112,211	-
Setup and commissioning services	66,473	34,588
Hotel services	26,526	29,898
Overhaul services	17,817	9,167
Other products	195,380	35,311
Total	4,459,630	4,246,557

	Year ended	
	31 December 2008	31 December 2007 (restated)
By geographical location of the customers		
Russian Federation	4,282,407	3,824,110
Kazakhstan	151,208	183,144
Ukraine	2,110	232,720
Other destinations	23,905	6,583
Total	4,459,630	4,246,557

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The following summary shows revenue from top five customers of the Group:

	Customer location	% of total turnover, 2008	Revenue	
			2008	2007
OJSC "Surgutneftegaz"	Surgut	19%	838,144	559,639
OJSC "Vankorneft"	Krasnoyarsk	16%	702,294	675,187
OJSC "Gazprom neft"	Moscow /St. Petersburg	9%	384,759	137,371
OJSC "NK Rosneft"	Moscow	8%	368,034	278,278
LLC "UNG-Service"	Nefteugansk	3%	136,352	357,640
Total		54%	2,429,583	2,008,115

8. COST OF SALES

Cost of sales for the years ended 31 December 2008 and 2007 consisted of the following:

	Year ended	
	31 December 2008	31 December 2007 (restated)
Cost of production		
Raw materials	2,302,094	2,204,242
Payroll and unified social tax	564,226	444,888
Subcontractors	87,001	26,991
Utilities	44,705	41,507
Depreciation of property, plant and equipment	44,059	35,682
Repairs and maintenance	23,801	1,753
Other	176,457	135,777
Increase in inventories	(123,615)	(85,205)
Cost of goods resold	86,836	81,151
Total	3,205,563	2,866,786

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9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2008 and 2007 consisted of the following:

	Year ended	
	31 December 2008	31 December 2007 (restated)
Payroll and unified social taxes	427,408	321,547
Transportation expenses	100,028	47,292
Consulting and audit fees	60,335	18,638
Repairs and maintenance	53,900	3,816
Business trip expenses	26,713	6,066
Raw materials	24,509	11,385
Rent	21,993	14,952
Taxes other than income tax	18,716	4,371
Depreciation	14,426	7,856
Bank services	14,094	8,505
Utilities	11,498	8,923
Warranty expenses	11,118	8,235
Change in allowances for doubtful receivables	5,578	3,133
Insurance expenses	4,048	3,018
Change in allowances for slow-moving inventories	2,503	3,130
Other expenses	28,112	72,972
Total	824,979	537,837

Certain reclassifications of prior year amounts have been made to conform with the current year presentation.

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10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of 31 December 2008 and 2007 were as follows:

	Buildings and land	Machinery and equipment	Other assets	Construction in progress	Total
Cost					
As of 1 January 2007	301,048	280,260	24,184	6,894	592,385
Additions	32,506	33,911	18,892	119,617	204,927
Acquired on acquisition of subsidiary	117	701	5,783	-	6,601
Transfers from construction in progress	31,469	1,729	-	(33,199)	-
Disposals	(788)	(3,678)	(5,394)	(920)	(10,781)
As of 31 December 2007	364,352	292,922	43,465	92,392	793,132
Additions	419	6,212	845	74,699	82,175
Acquired on acquisition of subsidiary	51,327	2,268	1,098	-	54,692
Transfers from construction in progress	49,813	38,003	25,736	(113,552)	-
Disposals	(13,930)	(11,534)	(265)	(158)	(25,824)
As of 31 December 2008	451,962	327,870	70,859	53,381	904,175
Accumulated depreciation					
As of 1 January 2007	(14,798)	(49,227)	(3,045)	-	(67,069)
Charge for the year	(8,006)	(30,157)	(4,076)	-	(45,240)
Eliminated on disposals	15	1,272	89	-	1,376
As of 31 December 2007	(22,789)	(81,112)	(7,031)	-	(110,933)
Charge for the year	(10,956)	(41,971)	(5,558)	-	(58,485)
Eliminated on disposals	5,015	5,879	162	-	10,856
As of 31 December 2008	(28,730)	(117,404)	(12,427)	-	(158,561)
Net Book Value					
As of 31 December 2007	341,563	211,811	36,433	92,392	682,199
As of 31 December 2008	423,252	210,466	58,432	53,381	745,531

As of 31 December 2008, construction in progress included 4,706 thousand Russian Rubles (2007: 26,716 thousand Russian Rubles) of advances paid for property, plant and equipment. As of 31 December 2008, property, plant and equipment with a carrying amount of 205,802 thousand Russian Rubles (2007: 263,270) has been pledged as security for certain borrowings granted to the Group (Notes 22).

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11. INTANGIBLE ASSETS

	Licence and patents	Software	Total
Cost			
As of 31 December 2007	2,333	7,619	9,952
Additions	1,598	13,024	14,620
Additions as a result of business combinations		688	688
Disposals			
As of 31 December 2008	3,929	21,331	25,260
Accumulated depreciation			
As of 31 December 2007	(689)	(512)	(1,201)
Charge for the year	(1,006)	(7,920)	(8,926)
Eliminated on disposals			
As of 31 December 2008	(1,695)	(8,432)	(10,127)
Net book value			
As of 31 December 2007	1,644	7,107	8,750
As of 31 December 2008	2,234	12,899	15,133

12. INVESTMENTS IN ASSOCIATES

Investments in associates as of 31 December 2008 and 2007 consisted of the following:

	LCC "OZNA-Instalcon"	LLC "OZNA-Neftegazmash"	Total
Carrying value as of 31 December 2006	662	-	662
Acquisition of associate	-	36,122	36,122
Excess of Group's interest in net assets acquired over consideration paid on acquisition of associate	-	(513)	(513)
Group's share in profit for the year	2,078	412	2,490
Carrying value as of 31 December 2007	2,740	36,021	38,761
Group's share in profit for the year	218	72	290
Carrying value as of 31 December 2008	2,958	36,093	39,051

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Details of the Group's significant associates as at 31 December 2008 were as follows:

Name of associate	Country	Date of acquisition	Principal activity	Ownership, %	
				31 December 2008	31 December 2007
LLC "OZNA-Neftegazmash"	Russian Federation	September 2007	Rent of production premises	30.5%	30.5%
LCC "OZNA Instalcon"	Kazakhstan	March 2005	Post sales finished goods maintenance	49%	49%

Summarised financial information in respect of LLC "OZNA-Neftegazmash" and LLC "OZNA Instalcon" is presented below:

	31 December 2008	31 December 2007
Total assets	131,477	139,871
Total liabilities	7,104	16,178
Net assets	124,373	123,693
Group's share of associate's net asset	39,051	38,781

13. INVENTORIES

Inventory balances as of 31 December 2008 and 2007 were as follows:

	31 December 2008	31 December 2007 (restated)
Raw materials, including:		
Components	452,236	176,498
Metal	144,534	120,926
Electronic parts	61,165	50,665
Construction materials	13,027	14,174
Armature parts	8,275	8,904
Other	80,602	77,337
Less: allowance for slow-moving inventories	(6,397)	(3,894)
Total raw materials	753,441	444,611
Work in progress	261,433	106,241
Finished goods	378,674	149,655
Goods for resale	361	7,201
Total	1,393,910	707,708

As of 31 December 2008, raw materials and finished goods with a carrying amount of 150,843 thousand Russian Rubles (2007: 149,949) were pledged as security for short-term borrowings granted to the Group (Note 22).

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14. TRADE AND OTHER RECEIVABLES

Trade and other accounts receivable as of 31 December 2008 and 2007 were as follows:

	31 December 2008	31 December 2007
Trade accounts receivable from third parties	620,211	538,093
Trade accounts receivable from related parties	309	1,784
Advances paid to third parties	165,000	381,352
Advances paid to related parties	665	301
Other receivables and prepayments	20,151	9,067
Other receivables for sales of subsidiary	814	79,920
	<u>(16,837)</u>	<u>(11,259)</u>
Less: allowance for doubtful receivables		
Total	<u>790,313</u>	<u>999,258</u>

As at 31 December 2008 trade receivables, advances and other current assets with a carrying amount of 16,837 thousand Russian Rubles (2007: 11,259 thousand Russian Rubles) were included in allowance for impaired receivables. Doubtful receivables mostly consist of customers, having financial difficulties.

The Group has provided for all receivables over 365 days considered as uncollectible based on historical experience, showing that receivables that are past due beyond 365 days are generally not recoverable. Trade receivables and other receivables between 120 and 365 days are provided for based on estimated irrecoverable amounts, determined by reference to past experience and are regularly reassessed based on the facts and circumstances existing as of each reporting date.

The average credit period for the Group is 90 days. During the period no interest was charged on the outstanding overdue amounts.

Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality. Of the trade receivables balance at the end of the year, the Group's five largest customers (individually exceeding 5.3% of the total balance, 2007: 2.2% of the total balance) represent 89.8% (2007: 39%) of the outstanding balance.

Included in the Group's receivable balance are debtors with a carrying amount of 526,492 thousand rubles (2007: 203,162) which are past due at the respective reporting date and which the Group still considers recoverable (i.e. not impaired). The Group does not hold any collateral over these outstanding balances.

Ageing of past due but not impaired trade and other receivables:

	31 December 2008	31 December 2007
less than 30 days	393,747	106,363
30-90 days	71,500	73,052
90-180 days	6,195	53,895
180-360 days	38,044	56,834
Thereafter	12,221	3,018
	<u>521,707</u>	<u>293,162</u>
Total		

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Movement in allowance for doubtful trade and other receivables:

	31 December 2008	31 December 2007
Balance at the beginning of the year	11,259	8,128
Recognised in the income statement	5,578	18,980
Amounts written-off as uncollected		(3,789)
Amount recovered during the year		(12,058)
Balance at the end of the year	16,837	11,259

Ageing of impaired trade and other receivables:

	31 December 2008	31 December 2007
less than 30 days	-	-
30-90 days	620	-
90-180 days	551	-
180-360 days	248	-
Thereafter	15,420	11,259
Total	16,837	11,259

15. VALUE-ADDED TAX AND OTHER TAXES RECEIVABLE

Value added tax ("VAT") and other taxes receivable as of 31 December 2008 and 2007 consisted of the following:

	31 December 2008	31 December 2007
VAT reimbursable	77,894	58,995
Other taxes receivable	4,222	10,479
Total	82,116	67,474

16. SHORT-TERM INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

Short-term investments in securities and other financial assets as of 31 December 2008 and 2007 consisted of the following:

	31 December 2008	31 December 2007
Available-for-sale investments carried at fair value		
Redeemable notes from third parties	963	963
Redeemable notes from related parties	-	3,000
	963	3,963
Loans given to third parties	37,600	11,895
Loans given to related parties	72,108	42,972
Total	110,671	58,830

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17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2008 and 2007 consisted of the following:

	31 December 2008	31 December 2007
Bank deposits	307,668	-
Cash in banks, in RUR	54,718	35,379
Cash in banks, in USD	1,222	15
Cash in hand	49	190
Total	363,656	35,584

Short-term bank deposits as at 31 December 2008 have different maturity periods, but can be withdrawn without any restrictions.

Credit quality analyses of the account balances and short-term bank deposits consisted of the following:

	31 December 2008	31 December 2007
BB- - BBB+* Rating	332,790	16,343
B - B+* Rating	3,792	3,285
Without rating	27,024	15,350
Cash on hand and other cash equivalents	50	605
Total	363,656	35,584

* Credit quality analyses of the account balances and short-term bank deposits is made on the basis of credit ratings of independent rating agencies Standard & Poor's and Fitch Rating

Cash and cash equivalents fair value is equal to their balance value.

18. SHARE CAPITAL

The share capital of the Group as of 31 December 2008 consists of 504,369,264 authorized, issued and fully paid ordinary shares with a par value of 1 Russian Ruble.

The share capital of the Group as of 31 December 2007 consisted of 4,503,297 authorized, issued and fully paid ordinary shares with a par value of 1 Russian Ruble.

In 2008 OJSC Holding Company OZNA was created. Payment for shares was performed by transferring of 4,503,297 shares of OAO "AK OZNA" to OAO "HC OZNA" (see Note 1).

As of 31 December 2008, the shareholders of the Group are represented by:

Shareholder	%
Marat Marsoovich Akhmetshin	24,67
Marat Familyevich Fattakhov	24,67
Artur Valeryevich Khazigaleev	24,67
Yurals Holding BV	25,99
Total	100,00

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As of 31 December 2007, the shareholders of the Group are represented by:

Shareholder	%
Marat Marsovich Akhmetshin	29.22
Marat Familyevich Fattakhov	29.22
Artur Valeryevich Khazigaleev	27.56
Alexander Vladimirovich Ashihmin	4.50
Erich Hackstock	9.50
Total	100.00

The holders of ordinary shares have voting rights but no guarantee of dividends. Ordinary shareholders are allowed one vote per share. Distributable profits are determined on the basis of profits reported in the statutory financial statements of the Company. These profits differ from profits recorded under IFRS.

Dividends paid to shareholders are determined by the board of directors and declared and approved at the annual shareholders' meeting.

In 2008, OJSC "AK OZNA" approved dividends of 171,042 thousand Russian Rubles (38 Russian Rubles per share) for the first half of the year 2007. These dividends were paid during 2008.

19. INCOME TAX

The Group's provision for income tax for the year ended 31 December 2008 and 2007 was as follows:

	Year ended 31 December 2008	Year ended 31 December 2007 (restated)
Current tax expense	130,710	221,030
Deferred tax benefit	(30,747)	(13,628)
Effect of the tax rate change	(6,068)	-
Total	93,895	207,402

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

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The tax effect of the major temporary differences that gave rise to the deferred tax assets and liabilities as at 31 December 2008 and 2007 is presented below:

	31 December 2008	31 December 2007 (restated)
Deferred tax assets		
Accrual of audit, consulting and other professional services	13,230	1,221
Deferred revenue	9,717	-
Prepaid expenses	8,266	-
Inventories	6,814	6,375
Property, plant and equipment	6,267	-
Allowance for doubtful receivables	3,367	2,702
Provision for slow-moving inventory	1,279	935
Total	48,941	11,233
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	77,992	79,439
Other adjustments	1,290	-
Total	79,282	79,439

The statutory tax rate effective in the Russian Federation was 24% in 2008 and 2007. The taxation charge recorded in the consolidated income statement differs from that which would be obtained by applying the statutory income tax rate to the net profit before income tax. Below is a reconciliation of theoretical income tax at 24% to the actual expense recorded in the Group's consolidated income statement:

	Year ended	
	31 December 2008	31 December 2007 (restated)
Profit before income tax	371,895	761,924
Theoretical income tax at statutory rate of 24%	89,255	182,862
Adjustments due to:		
Tax effect of expenses that are not deductible in determining taxable profit	10,708	24,540
Effect of profit tax rate change	(6,068)	-
Income tax expense	93,895	207,402

20. TRADE ACCOUNTS PAYABLE

Trade payables as of 31 December 2008 and 2007 consisted of the following:

	31 December 2008	31 December 2007
Trade payables to third parties	617,543	93,999
Trade payables to related parties	7,864	40,261
Total	625,407	134,260

The Group increased average term of the credit terms for materials purchase and services from 17 days in 2007 up to 71 days in 2008. During this period, no interest is charged on the outstanding balances.

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21. TAXES PAYABLE

Taxes payable as of 31 December 2008 and 2007 consisted of the following:

	31 December 2008	31 December 2007
Value-added tax	121,828	183
Unified social tax	12,449	10,542
Personal income tax	8,046	4,852
Property tax	1,831	1,014
Other	802	928
	<u>144,956</u>	<u>17,519</u>

22. SHORT-TERM BORROWINGS

Short-term borrowings as at 31 December 2008 and 2007 consisted of the following:

	Denominated in currency	Interest rate, 2008	Interest rate, 2007	31 December 2008	31 December 2007
OJSC "Sberbank RF"	RUR	8%-17%	8%-13%	356,871	437,821
CJSC "UniCredit Bank"	RUR	8%-24,5%	9.93%	35,009	205,110
OJSC "West-Siberian Bank"	RUR	11,5%-14,7%	-	19,974	-
OJSC "Bank of Khanty-Mansiysk"	RUR	-	13%	-	1,800
Bonds	RUR	-	10.5%	-	158,044
OJSC "Neftegazmash"	RUR	10%	-	2,647	-
LLC "Avtofirma OZNA"	RUR	-	10%	-	78,550
LLC "Interprom"	RUR	-	29.3%	-	21,217
Total				<u>414,501</u>	<u>902,342</u>

The Group issued bonds on 12 December 2006. The issue was at a nominal value of RUR 1 thousand per bond. Bonds mature in 3 years. Bonds are callable at nominal value in one year. During 2008 bonds for a total amount of 160,213 were redeemed (2007: 339,787). The coupon is payable twice per year.

At 31 December 2008, property, plant and equipment with a carrying amount of 205,802 thousand Russian Rubles (31 December 2007: 236,270 RR) was pledged as security for short-term borrowings granted to the Group (Note 10).

As of 31 December 2008, finished goods with carrying amount of 150,843 thousand Russian Rubles (31 December 2007 raw materials and finished goods: 149,946 RR) were pledged as security for short-term borrowings granted to the Group (Note 13).

As of 31 December 2008, the Group has non-pledged borrowing with a carrying amount of 35,009 thousand Russian Rubles.

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23. ACCRUALS AND OTHER PAYABLES

Accrual and other payables as of 31 December 2008 and 2007 consisted of the following:

	31 December 2008	31 December 2007 (restated)
Payroll and bonus accrual	92,864	66,995
Unused vacation accrual	17,948	7,041
Warranty provision	11,836	6,483
Other accruals and payables	6,923	11,513
Total	129,571	92,032

24. RELATED PARTIES

Included in the consolidated income statement for the year ended 31 December 2008 and 2007 are the following transactions with related parties:

	Year ended	
	31 December 2008	31 December 2007
Revenue from other related parties	552	2,857
Purchases from other related parties	153	-
Interest income from associate parties	1,063	250
Interest income from other related parties	5,540	8,181
Interest expense to associate parties	1,966	-
Interest expense to other related parties	147	236

Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No allowance has been made for doubtful debts in respect of the amounts owed by related parties.

Remuneration of key management personnel

Key management personnel of the Group receive short-term employee benefits. In 2008 and 2007 key management personnel received compensation of 32,271 and 29,003 thousand Russian Rubles, respectively.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Management believes that the carrying values of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values.

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26. RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Major categories of financial instruments

The Group's principle financial liabilities comprise loans and borrowings, trade payables and other payables and accruals. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, investments in securities and cash and cash equivalents.

	31 December 2008	31 December 2007
Financial assets		
<i>Loans and receivables (including cash and cash equivalents)</i>		
Cash and cash equivalents	55,989	35,584
Bank deposits	307,668	-
Redeemable notes	963	3,963
Loans given	109,708	54,867
Trade receivables	620,520	539,877
Total financial assets	1,094,848	634,291
Financial liabilities		
<i>Measured at amortised cost</i>		
Loans and borrowings	414,501	902,342
<i>Other financial liabilities</i>		
Trade payables	625,407	134,260
Total financial liabilities	1,039,908	1,036,602

The main risks arising from the Group's financial instruments are interest rate, credit and liquidity risks.

Market risk

Exchange rate risk

Management considers that the mentioned risk will not have a material impact on the Group activity as Russian Federation counterparties make more than 90% of the Group's annual turnover. The Group has the similar situation in purchases. The Group hasn't hedged the mentioned risk with the help of any financial instruments.

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Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group.

Group profit and cash flows from the operating activity don't depend on the interest rate risks' changes. The Group does not use any derivatives to manage interest rate risk exposure, at the same time the majority of the Group's financial assets and liabilities are at fixed rates and thus risk is limited.

Price risk

Management considers the Group not to be influenced by security price risk as it doesn't have ready for sale investments. The Group doesn't commit transactions concerning financial instruments with the value depending on the good quotation in the open market that is why the risk considered as distant.

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Group financial assets, having potential credit risk, are represented by accounts receivable, cash and bank deposits. The aim of the credit risk management is the prevention of liquid assets loss, lodged or invested in financial institutes or receivables' cost lowering.

Cash and cash equivalents. Cash and cash equivalents are placed in major Russian and multilateral banks, having independent credit rating. All account balances haven't exceeded the time limit and aren't devalued. See account balances' credit quality presented in Note 17.

Buyers and customers debts. Before the beginning of cooperation with the new client, the Group uses it's own system for the credit status estimation of the potential client and an establishment of credit limits for each separate client monthly.

The summary below shows the outstanding balances of top five counterparties as at the respective balance sheet dates and for the period then ended:

	Customer location	31 December 2008		31 December 2007	
		% in total receivables	Outstanding balance	% in total receivables	Outstanding balance
LLC "UNG service"	Nefteugansk	31%	244,069	9%	91,441
CJSC "Vankorneft"	Krasnoyarsk	29%	230,503	18%	178,135
OJSC "NK Rosneft"	Moscow	16%	126,948	2%	22,100
OJSC "Surgutneftegaz"	Surgut	8%	64,141	3%	27,267
OJSC "Gazprom neft"	Moscow /St. Petersburg	5%	42,105	7%	74,413
Total		90%	707,766	39%	393,356

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group is carefully monitoring minimal cash level in order to meet its payment obligations. The above mentioned minimal cash levels are held on cash account balances, bank deposits, short-time investments, cash and other financial instruments that can be classified as cash equivalents.

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The table below summarizes the maturity profile of the Group's trade payables and payables for operational activity as at 31 December 2008 and 2007, based on contractual undiscounted payments:

	31 December 2008	31 December 2007
Past due	67,341	38,752
Due within three months	53,840	81,820
Due from three to six months	9,309	12,384
Due from six months to twelve months	484,557	1,304
Due within more than twelve months	10,360	-
Total	625,407	134,260

The Group short-term borrowings are repayable as follows:

	31 December 2008	31 December 2007
Due within three months	171,042	268,098
Due from three to twelve months	243,459	634,244
Total	414,501	902,342

	31 December 2008	31 December 2007
Interest expense	72,154	83,803
Interest paid	74,409	84,092

The interest on borrowings relating to 2009 interest expense amounts to RUB 36,817 thousand

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximizing the return to the equity holder through the optimization of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt. The Group monitors capital on the capitalization ratio basis as well as direct ratio of net debt (difference between short-term borrowings and cash and cash equivalents) to earnings before interest, tax, depreciation and amortization (EBITDA).

Gearing ratio

The Group's capital structure as determined by gearing ratio at the year end was as follows:

	31 December 2008	31 December 2007
Debt (i)	414,501	902,342
Cash and cash equivalents (Note 17)	363,656	35,584
Net debt	50,845	866,758
Equity (ii)	1,455,769	1,290,828
Net debt to equity ratio	0.03	0.67

- (i) Debt is defined as short-term borrowings, as detailed in Note 22;
(ii) Equity includes share capital and all reserves of the Group.

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Net debt /EBITDA

Net debt /EBITDA as at 31 December 2008 and 2007:

	31 December 2008	31 December 2007
Profit before income tax	371,895	761,924
Plus property, plant and equipment accumulated depreciation	58,485	43,540
Plus interest expense	72,154	83,803
Minus interest income	10,875	46,499
EBITDA	591,659	842,768
Net debt	50,845	866,758
Net debt/EBITDA	0.10	1.03

27. COMMITMENTS AND CONTINGENCIES

Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all such matters will not have a material impact on the Group's consolidated financial position or operating results.

Taxation contingencies in the Russian Federation

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax legislation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that the tax authorities in the Russian Federation could take differing positions with regard to interpretative issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant. Management estimates total unprovided amount of possible tax risks to be approximately 5,960 thousand Russian Rubles.

Environmental matters

The Group is subject to extensive federal and local environmental controls and regulations. The Group's management believes that the Group operations are in compliance with all current existing environmental legislation in the Russian Federation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change, or the cost thereby.

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Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterised by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets.

The stability and success of the Russian economy and the Group's business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal and political systems.

Ongoing Global Liquidity Crisis

The financial markets, both globally and in Russian Federation, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. A side effect of those events was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced funding to borrowers, which has significantly reduced the liquidity in the global financial system.

While many countries, including Russia, have recently reported improvement of the situation in the financial markets, a further downturn can still occur, and further state support measures might be required. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from decline in the oil and gas prices could slow or disrupt the Russian economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

While the Russian Federation government has introduced a range of stabilization measures aimed at providing liquidity to Russian banks and companies, there is continuity of uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Insurance

In 2008 management has determined the following main insurance types according to the Group insurance policy:

- Property, plant and equipment insurance;
- Dangerous objects insurance;
- Third parties liability insurance for damage occupied during starting work implementation, adjustment and alignment;
- Liability insurance of the legal institute for it's officials in the administrative duty exercise;
- Accident insurance;
- Cargo insurance.

Management believes that the Group has an adequate insurance coverage of the risks that could have a material adverse effect on the Group's operations and consolidated financial position.

Capital commitments

Contracted capital expenditures at 31 December 2008, amounted to 1,019 thousand Russian Rubles, mostly nominated in Russian Rubles. According to the Group estimation, contracted capital expenditures amounted to 1,019 thousand of Russian Rubles, will be carried out in full in 2009.

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28. EVENTS AFTER THE BALANCE SHEET DATE

On 24th February 2009 OJSC "HC "OZNA" sold 2% of an authorised charter capital of LLC "OZNA-West Siberia" and decreased its ownership to 49%.

In 2009 OJSC "HC "OZNA" issued additional 59,228,510 shares, which were paid in cash, totally 254,683 thousand of Russian Rubles. The report on results of additional shares' release of OJSC "HC "OZNA" was registered on 30th April 2009 by Regional branch of Federal Agency of the financial markets in Southeast region.

In February 2009 the Group acquired 30,24% of the shares capital of LLC "OZNA-Neftegazmash" from LLC "VEK" for 41,800 thousands of Russian Rubles. Total share of the Group in the share capital of LLC "OZNA-Neftegazmash" became 60%.

Based on the contract concluded on 12 June 2009 the Group has disposed its 49% of equity investment in LCC "OZNA Instalcon".

29. RESTATEMENT

Correction of an error related to inventories

In 2008 the Group identified an error relating to the allocation of costs to the work in progress. As a result the Group adjusted its consolidated financial statements, specifically opening retained earnings as of 1 January 2007 and certain financial statement line items as at and for the year ended 31 December 2007.

Summarized effect on the consolidated income statement is presented below:

	For the year ended 31 December 2007		
	Previous report statements	Adjustments	Restated
Cost of sales	(2,877,101)	(9,685)	(2,886,786)
Gross profit	1,369,456	(9,685)	(1,359,771)
Profit before income tax	791,785	(9,685)	782,100
Income tax	(209,726)	2,324	(207,402)
Profit for the year	582,059	(7,361)	574,698

Summarized effect from consolidated balance sheet adjustments is presented below:

	As at 31 December 2007		
	Previous report statements	Adjustments	Restated
Deferred tax assets	4,858	6,375	11,233
Inventories	734,272	(26,564)	707,708
Retained earnings	1,282,126	(20,189)	(1,261,937)

	As at 1 January 2007		
	Previous report statements	Adjustments	Restated
Deferred tax assets	-	4,051	4,051
Inventories	596,847	(16,879)	579,968
Retained earnings	875,776	(12,828)	862,948

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in thousand of Russian Rubles)

Summarized effect on the consolidated statement of cash flow is presented below:

	For the year ended 31 December 2007		
	Previous report statements	Adjustments	Restated
Profit before income tax	791,785	(9,685)	782,100
Operating profit before working capital changes	881,200	(9,685)	871,515
Increase in inventories	(123,249)	9,685	(113,564)

Correction of presentation of consolidated statement of cash flows

In 2008 the Management has restated comparative amounts relating to presentation of the advance consideration paid for LLC "Automation means control". As a result "Increase in trade receivables and other receivables" and "Purchase of investment in subsidiary" were restated for the amount of RUB 59,336 thousand.

Summarized effect on the consolidated statement of cash flow is presented below:

	For the year ended 31 December 2007		
	Previous report statements	Adjustments	Recorded amounts
Increase in trade accounts and other receivables	(422,923)	59,336	(363,587)
Cash flows from operations	263,553	59,336	322,889
Net cash used in operating activities	(81,826)	59,336	(22,490)
Purchase of investments in subsidiary	(33,377)	(59,336)	(92,713)
Net cash used in investing activities	(88,682)	(59,336)	(147,998)