

**Open Joint Stock Company  
“HC “OZNA” and  
Subsidiaries**

**Consolidated Financial Statements**  
For the Year Ended 31 December 2009

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## TABLE OF CONTENTS

---

|  | <b>Page</b> |
|--|-------------|
| STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 | 3           |
| INDEPENDENT AUDITORS’ REPORT   | 4-5         |
| CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009:   |             |
| Consolidated statement of comprehensive income   | 6           |
| Consolidated statement of financial position   | 7           |
| Consolidated statement of changes in equity  | 8           |
| Consolidated statement of cash flows   | 9           |
| Notes to the consolidated financial statements   | 10-43       |

## OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

---

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Open Joint Stock Company "HC "OZNA" and its subsidiaries (the "Group") as at 31 December 2009, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2009 were approved by management on 10 September 2010:

  
\_\_\_\_\_  
M.V. Kravtsov  
General Director

  
\_\_\_\_\_  
M.N. Sultanbekova  
Finance & Economics Deputy Manager

10 September 2010



**ZAO KPMG**  
10 Presnenskaya Naberezhnaya  
Moscow, Russia 123317

Telephone +7 (495) 937 4477  
Fax +7 (495) 937 4400/99  
Internet www.kpmg.ru

## **Independent Auditors' Report**

To the Board of Directors of Open Joint Stock Company

“Holding Company “OZNA”

We have audited the accompanying consolidated financial statements of Open Joint Stock Company “HC “OZNA” (the “Company”) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Other Matter*

The consolidated financial statements of the Group as at and for the year ended 31 December 2008 were audited by other auditors whose report dated 10 June 2010 expressed an unmodified opinion on those statements.



ZAO KPMG

10 September 2010

## OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

|   | Note | Year ended<br>31 December<br>2009 | Year ended<br>31 December<br>2008 |
|---|------|-----------------------------------|-----------------------------------|
| REVENUE   | 7    | 5,853,550                         | 4,459,630                         |
| COST OF SALES   | 8    | <u>(4,425,656)</u>                | <u>(3,205,563)</u>                |
| GROSS PROFIT  |      | 1,427,894                         | 1,254,067                         |
| Selling, general and administrative expenses          | 9    | (968,930)                         | (802,142)                         |
| Other operating income/(expenses), net                |      | <u>(3,868)</u>                    | <u>(17,098)</u>                   |
| OPERATING PROFIT                                      |      | 455,096                           | 434,827                           |
| Interest income                                       |      | 19,686                            | 10,875                            |
| Interest expense                                      |      | (61,585)                          | (77,893)                          |
| Loss on disposal of associate                         | 13   | (2,958)                           | -                                 |
| Share in profit of associates                         | 13   | 38                                | 290                               |
| Other non-operating income/(expense), net             |      | <u>7,031</u>                      | <u>3,796</u>                      |
| PROFIT BEFORE INCOME TAX                              |      | 417,308                           | 371,895                           |
| INCOME TAX EXPENSE                                    | 20   | <u>(109,900)</u>                  | <u>(93,895)</u>                   |
| <b>PROFIT FOR THE YEAR</b>                            |      | <b><u>307,408</u></b>             | <b><u>278,000</u></b>             |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>        |      | <b><u>307,408</u></b>             | <b><u>278,000</u></b>             |
| <b>Comprehensive income attributable to:</b>          |      |                                   |                                   |
| Owners of the Company                                 |      | 311,292                           | 271,894                           |
| Non-controlling interest                              |      | <u>(3,884)</u>                    | <u>6,106</u>                      |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>        |      | <b><u>307,408</u></b>             | <b><u>278,000</u></b>             |
| Basic and diluted earnings per share (Russian Rubles) | 6    | <u>0.568</u>                      | <u>0.539</u>                      |

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10-43.

# OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

(in thousands of Russian Rubles, unless otherwise stated)

|   | Note | As at<br>31 December<br>2009 | As at<br>31 December<br>2008 |
|---|------|------------------------------|------------------------------|
| <b>ASSETS</b>   |      |                              |                              |
| NON-CURRENT ASSETS:   |      |                              |                              |
| Property, plant and equipment                                   | 10   | 850,357                      | 745,531                      |
| Goodwill  | 11   | 13,840                       | 8,799                        |
| Intangible assets   | 12   | 11,156                       | 15,133                       |
| Investments in associates                                       | 13   | 62                           | 39,051                       |
| Deferred tax assets   | 20   | 13,045                       | 16,792                       |
| Long-term trade and other receivables                           | 15   | 38,789                       | -                            |
| Other long-term assets  |      | 1,175                        | 1,175                        |
| Total non-current assets  |      | <u>928,424</u>               | <u>826,481</u>               |
| CURRENT ASSETS:   |      |                              |                              |
| Inventories   | 14   | 1,159,677                    | 1,371,732                    |
| Trade and other receivables                                     | 15   | 1,740,761                    | 790,313                      |
| Value-added tax and other taxes receivables                     | 16   | 129,962                      | 104,294                      |
| Income tax receivable   |      | 14,451                       | 5,975                        |
| Short-term investments in securities and other financial assets | 17   | 86,071                       | 110,671                      |
| Cash and cash equivalents                                       | 18   | 55,258                       | 363,656                      |
| Total current assets  |      | <u>3,186,180</u>             | <u>2,746,641</u>             |
| <b>TOTAL ASSETS</b>   |      | <b><u>4,114,604</u></b>      | <b><u>3,573,122</u></b>      |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>                     |      |                              |                              |
| SHAREHOLDERS' EQUITY:   |      |                              |                              |
| Share capital   | 19   | 563,598                      | 504,369                      |
| Share premium   | 19   | 254,682                      | -                            |
| Retained earnings   |      | 1,262,764                    | 951,427                      |
| Equity attributable to equity holders of the parent             |      | <u>2,081,044</u>             | <u>1,455,796</u>             |
| Non-controlling interest  |      | 10,976                       | 14,455                       |
| Total shareholders' equity                                      |      | <u>2,092,020</u>             | <u>1,470,251</u>             |
| NON-CURRENT LIABILITIES:  |      |                              |                              |
| Deferred tax liability  | 20   | 41,871                       | 47,133                       |
| Total non-current liabilities                                   |      | <u>41,871</u>                | <u>47,133</u>                |
| CURRENT LIABILITIES:  |      |                              |                              |
| Non-controlling interest in limited liability companies         | 13   | 50,362                       | -                            |
| Trade payables  | 21   | 878,351                      | 625,407                      |
| Advances received   |      | 338,260                      | 722,968                      |
| Taxes payable   | 22   | 215,830                      | 144,956                      |
| Current income tax  |      | 34,093                       | 18,335                       |
| Short-term borrowings   | 23   | 213,919                      | 414,501                      |
| Accruals and other payables                                     | 24   | 249,898                      | 129,571                      |
| Total current liabilities                                       |      | <u>1,980,713</u>             | <u>2,055,738</u>             |
| <b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>               |      | <b><u>4,114,604</u></b>      | <b><u>3,573,122</u></b>      |

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10-43.

## OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

(in thousands of Russian Rubles, unless otherwise stated)

|  | Note | Attributable to equity holders of the parent |                |                   | Non-controlling interest | Total shareholder's equity |                  |
|--|------|--|----------------|-------------------|--------------------------|----------------------------|------------------|
|  |      | Share capital                                | Share premium  | Retained earnings |                          |                            | Total            |
| <b>Balance as at 1 January 2008</b>  |      | <b>504,369</b>                               | -              | <b>786,459</b>    | <b>1,290,828</b>         | <b>10,388</b>              | <b>1,301,216</b> |
| <b>Total comprehensive income for the year</b>   |      |  |                |                   |                          |                            |                  |
| Profit for the year  |      | -  | -              | 271,894           | 271,894                  | 6,106                      | 278,000          |
| <b>Total comprehensive income for the year</b>   |      | -  | -              | <b>271,894</b>    | <b>271,894</b>           | <b>6,106</b>               | <b>278,000</b>   |
| <b>Transactions with owners, recorded directly in equity</b>                           |      |  |                |                   |                          |                            |                  |
| Effect of changes in Group structure   |      | -  | -              | 19,876            | 19,876                   | -                          | 19,876           |
| Non-controlling interest increase connected with disposal of the subsidiary            |      | -  | -              | -                 | -                        | 103                        | 103              |
| Dividends  |      | -  | -              | (126,802)         | (126,802)                | (2,142)                    | (128,944)        |
| <b>Total transactions with owners</b>  |      | -  | -              | <b>(106,926)</b>  | <b>(106,926)</b>         | <b>(2,039)</b>             | <b>(108,965)</b> |
| <b>Balance as at 31 December 2008</b>  |      | <b>504,369</b>                               | -              | <b>951,427</b>    | <b>1,455,796</b>         | <b>14,455</b>              | <b>1,470,251</b> |
| <b>Total comprehensive income for the year</b>   |      |  |                |                   |                          |                            |                  |
| Profit for the year  |      | -  | -              | 311,292           | 311,292                  | (3,884)                    | 307,408          |
| <b>Total comprehensive income for the year</b>   |      | -  | -              | <b>311,292</b>    | <b>311,292</b>           | <b>(3,884)</b>             | <b>307,408</b>   |
| <b>Transactions with owners, recorded directly in equity</b>                           |      |  |                |                   |                          |                            |                  |
| Share issue  | 19   | 59,229                                       | 254,682        | -                 | 313,911                  | -                          | 313,911          |
| Changes in ownership interests in subsidiaries that do not result in a loss of control |      | -  | -              | 45                | 45                       | 405                        | 450              |
| <b>Total transactions with owners</b>  |      | <b>59,229</b>                                | <b>254,682</b> | <b>45</b>         | <b>313,956</b>           | <b>405</b>                 | <b>314,361</b>   |
| <b>Balance as at 31 December 2009</b>  |      | <b>563,598</b>                               | <b>254,682</b> | <b>1,262,764</b>  | <b>2,081,044</b>         | <b>10,976</b>              | <b>2,092,020</b> |

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10-43.

# OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

(in thousands of Russian Rubles, unless otherwise stated)

|   | Note | Year ended<br>31 December<br>2009 | Year ended<br>31 December<br>2008 |
|---|------|-----------------------------------|-----------------------------------|
| <b>OPERATING ACTIVITIES:</b>                                    |      |                                   |                                   |
| Profit before income tax  |      | 417,308                           | 371,895                           |
| Adjustments for:  |      |                                   |                                   |
| Depreciation of property, plant and equipment                   |      | 66,193                            | 58,485                            |
| Amortisation of intangible assets                               | 12   | 14,166                            | 8,926                             |
| Interest income   |      | (19,686)                          | (10,875)                          |
| Interest expense  |      | 61,585                            | 77,893                            |
| Share in profit of associates                                   | 13   | (38)                              | (290)                             |
| Loss on disposal of investments in associate                    | 13   | 2,958                             | -                                 |
| Change in provision for doubtful receivables                    | 15   | 4,198                             | 5,578                             |
| Change in provision for slow-moving inventories                 | 14   | (5,371)                           | 2,503                             |
| Loss on disposal of property, plant and equipment               | 10   | 4,660                             | 15,583                            |
| Other adjustments   |      | 7,030                             | 2,933                             |
| Operating cash flow before working capital changes              |      | 553,003                           | 532,631                           |
| Decrease/(Increase) in inventories                              |      | 218,073                           | (665,544)                         |
| (Increase)/Decrease in trade and other receivables              |      | (988,802)                         | 234,931                           |
| (Increase) in value-added tax and other taxes receivable        |      | (25,668)                          | (36,790)                          |
| (Decrease)/increase in trade payables and advances received     |      | (141,339)                         | 1,072,481                         |
| Increase in short-term accruals and other payables              |      | 120,327                           | 37,537                            |
| Increase in taxes payable                                       |      | 70,874                            | 127,437                           |
| Cash flows from operating activities                            |      | <u>(193,532)</u>                  | <u>1,302,683</u>                  |
| Interest paid   |      | (62,193)                          | (80,147)                          |
| Income tax paid   |      | <u>(106,060)</u>                  | <u>(77,660)</u>                   |
| Net cash (used in)/generated by operating activities            |      | <u>(361,785)</u>                  | <u>1,144,876</u>                  |
| <b>INVESTING ACTIVITIES:</b>                                    |      |                                   |                                   |
| Interest received   |      | 28,567                            | 998                               |
| Purchase of property, plant and equipment                       |      | (31,581)                          | (150,753)                         |
| Purchase of a group of assets                                   | 13   | (41,269)                          | -                                 |
| Purchase of investments in subsidiary                           | 5    | (18,969)                          | 2,057                             |
| Purchase of investments in associate                            | 13   | (24)                              | -                                 |
| Purchase of intangible and other assets                         |      | (10,519)                          | (15,559)                          |
| Purchase of securities and other financial assets               |      | (80,586)                          | (109,357)                         |
| Proceeds from disposal of securities and other financial assets |      | 93,380                            | 71,067                            |
| Net cash used in investing activities                           |      | <u>(61,001)</u>                   | <u>(201,547)</u>                  |
| <b>FINANCING ACTIVITIES:</b>                                    |      |                                   |                                   |
| Proceeds from borrowings  |      | 1,420,130                         | 2,817,696                         |
| Repayment of borrowings   |      | (1,620,103)                       | (3,146,002)                       |
| Retirement of bonds, coupon payments                            |      | -                                 | (160,213)                         |
| Proceeds from issue of share capital                            |      | 313,911                           | -                                 |
| Dividends paid  |      | -                                 | (128,944)                         |
| Other   |      | 450                               | 2,206                             |
| Net cash from/(used in) financing activities                    |      | <u>114,388</u>                    | <u>(615,257)</u>                  |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS            |      | (308,398)                         | 328,072                           |
| CASH AND CASH EQUIVALENTS, beginning of year                    | 18   | <u>363,656</u>                    | <u>35,584</u>                     |
| CASH AND CASH EQUIVALENTS, end of year                          | 18   | <u>55,258</u>                     | <u>363,656</u>                    |

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10-43.

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of Russian Rubles, unless otherwise stated)*

---

### 1. GENERAL INFORMATION

#### 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 contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. These 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.

#### Organisation and operations

Hereinafter the Group includes the parent company, Open Joint Stock Company “Holding Company “OZNA” (the “Company” or “HC “OZNA”) and its subsidiaries (together referred to as the “Group” or “OZNA Group”).

HC OZNA was incorporated in 2008 as a part of reorganization of the Group structure to consolidate the ownership of the Group companies under HC OZNA. The Company is located at 5/2 Lenina Street, Ufa, Republic of Bashkortostan, 450077 Russian Federation.

The principal activities of the Group are design, production and installation of equipment and infrastructure for oil and gas industry, as well as related services, including engineering and research works.

The significant subsidiaries are:

| Company name  | Place of incorporation and operation    | Activity   | Share of ownership as at: |                  |
|---|---|--|---------------------------|------------------|
|   |   |  | 31 December 2009          | 31 December 2008 |
| LLC “OZNA-Management”   | Ufa                                     | Management services                                  | 100.00%                   | 100.00%          |
| OJSC “AK OZNA”  | Oktyabrski                              | Production and sales of oil and gas equipment        | 100.00%                   | 100.00%          |
| LLC “OZNA- Engineering”   | Ufa                                     | Production and sale of hi-tech oil and gas equipment | 100.00%                   | 100.00%          |
| LLC “OZNA -West Siberia”  | Moscow                                  | Sales of oil and gas equipment in North-West region  | 49.00%                    | 51.00%           |
| CJSC “Nature Development Institute”                                   | Nizhnevartovsk                          | Services in development works for new oil fields     | 74.80%                    | 74.80%           |
| LLC “OZNAservice ”  | Oktyabrski                              | Servicing and installation of equipment              | -                         | 100%             |
| LLC “Service company “OZNA ” (formely LLC “Automation means control”) | Ufa, Oktyabrski, Nizhnevartovsk, Surgut | Servicing and installation of equipment              | 100.00%                   | 100.00%          |
| LLC Hotel “Tonus”   | Oktyabrski                              | Hotel  | 100.00%                   | 100.00%          |

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

|                          |            |  |         |         |
|--------------------------|------------|--|---------|---------|
| LLC “OZNA-Finance”       | Oktyabrski | Special purpose entity for issuing bonds | 100.00% | 100.00% |
| LLC “Industrial systems” | Surgut     | Maintenance of equipment services        | 100.00% | -       |
| LLC “OZNA-Neftegazmash”  | Oktyabrski | Rent of real estate                      | 60.74%  | 30.5%   |

All the above companies are registered in the Russian Federation.

The Group determined that the substance of relationship between the Group and LLC “OZNA-West Siberia”, with a 49% share belonging to the Group, indicated that LLC “OZNA-West Siberia” is controlled by the Group. As a result, this entity has been included into the Group’s consolidated financial statements as at 31 December 2009, because this is special purpose entity.

In 2009, as a part of optimizing the Group structure, LLC “Automation means control” was renamed into LLC “Service company “OZNA”. Furthermore, LLC “OZNA-Service” was liquidated as a legal entity and operations of the latter were transferred to LLC “Service company “OZNA”. LLC “Service company “OZNA” carries out its operations through its branches in Oktyabrski, Ufa, Nizhnevartovsk, Surgut.

## 2. BASIS OF PREPARATION

### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (the “IFRS”).

### Basis of measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis, except that at the date of transition to IFRS property, plant and equipment was revalued to fair value, as determined by independent appraisers.

### Reclassification of comparable data

Certain reclassifications of comparative information in the consolidated financial statements have been made to conform to the current year presentation.

### Functional and presentational currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUR has been rounded to the nearest thousand.

### Changes in accounting policies and presentation

The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as at 1 January 2009. The revised standard requires a presentation of all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of Russian Rubles, unless otherwise stated)*

---

### **Use of estimates and judgments**

In the process of applying the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods of the revision affects both current and future periods.

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

#### *Allowance for trade and other receivables*

The allowance for trade and other receivables is based on management's evaluation of the volume of the receivables outstanding, past experience and general economic conditions.

#### *Useful lives of assets*

The useful economic lives of the Group's assets are determined by management at the time the asset is acquired and are regularly reviewed for appropriateness. The Group defines useful lives of its assets in terms of the assets' expected utility to the Group. This judgment is based on the experience of the Group with similar assets. In determining the useful life of an asset, the Group also considers technical and/or commercial obsolescence, appearing in consequence of changes or improvements of the market situation.

#### *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

#### *Income tax*

The Group is subject to income taxes and other taxes. Significant judgment is required in determining the provision for income taxes due to the complexity of the tax legislation of the Russian Federation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of Russian Rubles, unless otherwise stated)*

---

### *Allowance for slow-moving inventory*

Allowances for slow-moving inventories are made to reduce excess inventories to their estimated net realizable values, as necessary. A change in customer demand for inventory is the primary indicator for reductions in inventory carrying values. The Group records inventory allowances based on historical experiences with customers, the ability to utilise inventory in other programs, the ability to redistribute inventory back to the suppliers and current and forecasted demand for the inventory.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of consolidation**

#### **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.

#### **Special purpose entities**

The Group has established a number of special purpose entities (“SPE”s) for trading and investment purposes. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE’s risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs’ management and that result in the Group receiving the majority of the benefits related to the SPEs’ operations and net assets, being exposed to majority of risks incident to the SPE’s activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

#### **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 as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group’s controlling shareholder’s consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

#### **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. 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.

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of Russian Rubles, unless otherwise stated)*

---

### **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.

### **Goodwill**

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. If the Group's interest in net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary exceeds the cost of the acquisition, the difference is recognised immediately in profit or loss.

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

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

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' above.

### **Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### **Foreign currencies**

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of the transaction.

Exchange differences are recognised in profit or loss in the period in which they arise as a component of other income or expense, except for exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets, where they are regarded as an adjustment to interest costs on foreign currency borrowings.

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of Russian Rubles, unless otherwise stated)*

---

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and value-added tax.

Revenue from the sale of bush block pump stations, measuring stations and other equipment (finished goods) is recognised when the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership, upon finished goods delivery;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from rendering of services is recognised at the time the services are provided.

Interest income is accrued on timely basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payments have been established.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Transaction costs associated with the issuance of a debt instrument are recorded as a reduction of the debt liability, and are amortised to interest expense over the term of the related debt. In any period in which the debt is redeemed, the unamortised costs relating to the debt being redeemed are expensed.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Property, plant and equipment

The date of initial application of IFRS for the Group was 1 January 2005. The Group elected to utilize exemptions available for first-time adopters under IFRS 1 and recorded property, plant and equipment at fair value. The valuations were performed by an independent appraiser. The difference between the fair value of the property, plant and equipment and its cost in Russian GAAP at 1 January 2005 was recorded as retained earnings at that date, net of effect of deferred tax.

Property, plant and equipment acquired through acquisitions of subsidiaries are recorded at fair value on the date of the acquisition, as determined by an independent appraiser.

Additions to property, plant and equipment are recorded at cost. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs, including overhaul expenses, are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of Russian Rubles, unless otherwise stated)*

---

Capitalised cost includes major expenditures for improvements and replacements. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalisation are charged to profit or loss as incurred.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and property under construction, over their estimated useful lives, using the straight-line method. Land is not depreciated.

The estimated useful lives of the various classes of assets are as follows:

|                         | <u>Useful lives (in years)</u> |
|-------------------------|--------------------------------|
| Buildings               | 10-50                          |
| Machinery and equipment | 3-20                           |
| Other assets            | 3-10                           |

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets that require installation or preparation for their use. Cost includes, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### **Intangible assets, other than goodwill**

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets include capitalized development costs, software, licenses and patents and are amortized over their respective useful lives of 3 to 10 years.

### **Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of Russian Rubles, unless otherwise stated)*

---

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

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in-first-out (“FIFO”) method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### **Financial assets**

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories:

- Available-for-sale (“AFS”) financial assets; and
- Loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### ***Effective interest method***

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

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

### ***AFS financial assets***

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value of AFS is determined as follows:

- The fair value of AFS financial assets 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 AFS financial assets are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of Russian Rubles, unless otherwise stated)*

---

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

### ***Loans and receivables***

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

### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less, those are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

### ***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

### ***Derecognition of financial assets***

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

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

---

### Financial liabilities and equity instruments issued by the Group

#### *Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the asset of an entity deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

#### *Financial guarantee contract liabilities*

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*; and
- The amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

#### *Financial liabilities*

Financial liabilities can be classified as financial liabilities at FVTPL or as other financial liabilities.

#### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and *IAS 39 Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 26.

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of Russian Rubles, unless otherwise stated)*

---

### ***Other financial liabilities***

Other financial liabilities, including loans and borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

### ***Effective interest method***

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

### ***Derecognition of financial liabilities***

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

### **Employee benefits**

#### ***Defined contribution plans***

All Group's subsidiaries are legally obliged to make defined contributions to the Russian Federation State Pension Fund.

The Group's contributions to the Russian Federation State Pension Fund relating to defined contribution plans are charged to profit or loss in the period to which they relate.

In the Russian Federation all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through a unified social tax (“UST”) calculated by the application of a regressive rate from 26% to 2% of the annual gross remuneration of each employee. UST is allocated to three state social funds, including the Russian Federation State Pension Fund, where the rate of contributions to that fund vary from 20% to 2%, depending on the annual gross remuneration of each employee.

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service.

### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of Russian Rubles, unless otherwise stated)*

---

### **Current income tax**

Current income tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

### **Deferred tax**

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to other comprehensive income or equity, in which case the tax is also recognised in other comprehensive income or directly in equity, or they arise from the initial accounting for a business combination. In case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over the cost.

### **Dividends declared**

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

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of Russian Rubles, unless otherwise stated)*

---

Accumulated profits distributable by the Group's entities are based on the amounts available for distribution in accordance with the applicable legislation of the jurisdictions where each entity operates and as reflected in the statutory financial statements of the individual entities of the Group based on calendar reporting years (years ending 31 December). These amounts may differ significantly from the amounts calculated on the basis of IFRSs.

### Related parties

Related parties are those counterparties that represent:

- (a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under the common control of, the Group. This includes, but is not limited to, holding companies, subsidiaries and fellow subsidiaries;
- (b) Enterprises over which the Group has significant influence and which are neither subsidiaries nor joint ventures of the investor. This includes associates;
- (c) Individuals owning, directly or indirectly, an interest in the voting power of the Group, which gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group;
- (d) Key management personnel, namely persons with authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close family members of such individuals; and
- (e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors, partners or shareholders of the Group and enterprises that have a member of key management in common with the Group.

In considering each possible related-party relationship, attention is paid to the substance of the relationship, and not merely the legal form.

## 4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2009, and have not been applied in preparing these consolidated financial statements. The assessment of the potential impact of these pronouncements on the Group's operations is given below. The Group plans to adopt some of these pronouncements when they become effective.

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

**IFRS 3, Business Combinations** (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of Russian Rubles, unless otherwise stated)*

---

resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its financial statements.

**IFRIC 17, Distribution of Non-Cash Assets to Owners** (issued in November 2008, effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

**IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments** (issued in November 2009, effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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

**Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment** (issued in June 2009, effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendment is not expected to have any impact on the Group's financial statements.

**Classification of Rights Issues - Amendment to IAS 32** (issued in October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment is not expected to have any impact on the Group's financial statements.

**Improvements to International Financial Reporting Standards** (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

*(in thousands of Russian Rubles, unless otherwise stated)*

---

determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

**Amendment to IAS 24, Related Party Disclosures** (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

**IFRS 9, Financial Instruments: Classification and Measurement** (IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted). Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

**Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS** (issued in July 2009, effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's financial statements.

**Improvements to International Financial Reporting Standards** (issued in May 2010). Amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13 issued by the IASB in 2010 are generally applicable for annual periods beginning after 1 January 2011. The Group is currently assessing the effect on those amendments on future financial statements.

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of Russian Rubles, unless otherwise stated)*

---

### 5. ACQUISITION OF SUBSIDIARIES

#### LLC “Industrial systems”

On 11 February 2009 the Group acquired 100% of voting shares of LLC “Industrial systems”, a company rendering maintenance services.

A significant part of Group’s target and existing customers is located in Western Siberia region. These customers require after sales service including maintenance of equipment sold by OZNA Group. Taking the control of LLC “Industrial systems”, the Group will enjoy an opportunity enlarge existing customer base by getting brand awareness and competitive advantage of being able to respond to customers’ needs quicker, reduce travel costs, strengthen its market position by providing full range of services from product design to after sales services.

From the date of acquisition to 31 December 2009 LLC “Industrial systems” contributed revenue of 80,422 thousand Russian Rubles and loss of 7,843 thousand Russian Rubles. The Group consolidates LLC “Industrial systems” from 1 January 2009 as the management estimates that there were no significant changes in financial position of LLC “Industrial systems” from 1 January 2009 till date of acquisition. Financial performance over this period does not impact significantly Group’s operations.

The identifiable assets acquired and the liabilities assumed were as follows:

|  | <b>Recognised fair values<br/>on acquisition</b> |
|--|--|
| Property, plant and equipment  | 17,511   |
| Intangible assets  | 48   |
| Inventories  | 1,487  |
| Trade and other receivables  | 6,849  |
| Cash and cash equivalents  | 31   |
| Deferred tax liability   | (2,219)  |
| Trade accounts payables  | (7,113)  |
| Short-term borrowings  | (2,635)  |
| <b>Net identifiable assets, liabilities and contingent liabilities</b> | <b>13,959</b>                                    |
| Goodwill on acquisition  | 5,041  |
| <b>Total consideration satisfied by cash</b>                           | <b>19,000</b>                                    |
| <b>Net cash outflow on acquisition</b>                                 |  |
| <b>Total purchase consideration</b>                                    | <b>(19,000)</b>                                  |
| Less: cash and cash equivalent balances acquired                       | 31   |
| <b>Net cash outflow</b>  | <b>(18,969)</b>                                  |

It has not been practicable to determine the carrying amounts of the subsidiary’s assets, liabilities and contingent liabilities on an IFRS basis immediately prior to the date of acquisition because the subsidiary’s financial statements were prepared in accordance with Russian Accounting Principles, which are significantly different from IFRSs.

The difference between the fair value of net assets acquired and the consideration paid is accounted for as goodwill in the consolidated statement of financial position. The Group paid in excess of fair value of net assets of LLC “Industrial systems” due to strong customer base of the acquired entity and Group’s intention to improve its position on maintenance service market of Western Siberia.

# OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

### 6. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended 31 December 2009 and 2008 have been calculated on the basis of the profit for the year and the weighted average number of ordinary 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<br>2009 | 31 December<br>2008 |
| Profit for the year attributable to equity holders of the parent | 311,292             | 271,894             |
| Weighted average number of shares (in shares)                    | 548,019,865         | 504,369,264         |
| Basic and diluted earnings per share (Russian Rubles)            | <u>0.568</u>        | <u>0.539</u>        |

### 7. REVENUE

|  | Year ended              |                         |
|--|-------------------------|-------------------------|
|  | 31 December<br>2009     | 31 December<br>2008     |
| <b>By product</b>                                      |                         |                         |
| Measuring stations                                     | 1,620,134               | 2,148,996               |
| Module-type installations                              | 1,358,821               | 112,211                 |
| Bush block pump stations                               | 891,422                 | 530,301                 |
| Oil, oil products, water and gas fiscal metering units | 708,003                 | 285,177                 |
| Blocks   | 422,968                 | 389,440                 |
| Spare parts  | 298,245                 | 410,567                 |
| Maintenance of equipment                               | 212,357                 | 114,454                 |
| Concurrent engineering                                 | 119,166                 | 162,488                 |
| Setup and commissioning services                       | 57,596                  | 66,473                  |
| Hotel services   | 27,172                  | 26,526                  |
| Overhaul services                                      | 18,176                  | 17,617                  |
| Other products   | 119,490                 | 195,380                 |
| <b>Total</b>   | <u><b>5,853,550</b></u> | <u><b>4,459,630</b></u> |

|  | Year ended              |                         |
|--|-------------------------|-------------------------|
|  | 31 December<br>2009     | 31 December<br>2008     |
| <b>By geographical location of the customers</b> |                         |                         |
| Russian Federation                               | 5,743,901               | 4,282,407               |
| Kazakhstan                                       | 106,929                 | 151,208                 |
| Ukraine  | -                       | 2,110                   |
| Other destinations                               | 2,720                   | 23,905                  |
| <b>Total</b>                                     | <u><b>5,853,550</b></u> | <u><b>4,459,630</b></u> |

## OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

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

|                       | Customer location | % of total<br>turnover, 2009 | Revenue          |                  |
|-----------------------|-------------------|------------------------------|------------------|------------------|
|                       |                   |                              | 2009             | 2008             |
| OJSC “NK Rosneft”     | Moscow            | 29%                          | 1,696,714        | 1,162,477        |
| OJSC “Surgutneftegaz” | Surgut            | 17%                          | 968,321          | 838,144          |
| OJSC “AK Transneft”   | Moscow            | 9%                           | 542,054          | -                |
| LLC “UNG-Service”     | Nefteugansk       | 9%                           | 515,522          | 14,355           |
| OJSC “TNK-BP Holding” | Tyumen            | 7%                           | 418,659          | 321,728          |
| <b>Total</b>          |                   | <b>71%</b>                   | <b>4,141,270</b> | <b>2,336,704</b> |

### 8. COST OF SALES

|   | Year ended          |                     |
|---|---------------------|---------------------|
|   | 31 December<br>2009 | 31 December<br>2008 |
| Cost of production                            |                     |                     |
| Raw materials                                 | 3,429,377           | 2,302,094           |
| Payroll and unified social tax                | 714,269             | 564,226             |
| Subcontractors                                | 103,955             | 87,001              |
| Utilities                                     | 39,963              | 44,705              |
| Depreciation of property, plant and equipment | 43,038              | 46,891              |
| Repairs and maintenance                       | 16,807              | 23,801              |
| Other   | 115,331             | 173,624             |
| Change in inventories                         | (66,712)            | (123,615)           |
| Cost of goods resold                          | 29,628              | 86,836              |
| <b>Total</b>                                  | <b>4,425,656</b>    | <b>3,205,563</b>    |

### 9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

|  | Year ended          |                     |
|--|---------------------|---------------------|
|  | 31 December<br>2009 | 31 December<br>2008 |
| Payroll and unified social taxes                                 | 615,424             | 427,408             |
| Transportation expenses  | 70,969              | 100,028             |
| Consulting, certification, advertising expenses and<br>audit fee | 43,176              | 60,335              |
| Raw materials  | 39,284              | 24,509              |
| Business trip expenses   | 32,232              | 26,713              |
| Rent (Note 27)   | 31,375              | 21,993              |
| Depreciation of property, plant and equipment                    | 25,098              | 14,426              |
| Security, repairs and maintenance                                | 22,016              | 53,900              |
| Taxes other than income tax                                      | 16,461              | 18,716              |
| Insurance expenses   | 9,146               | 4,048               |
| Bank services  | 8,916               | 8,355               |
| Utilities  | 8,228               | 11,498              |
| Other expenses   | 46,605              | 30,213              |
| <b>Total</b>   | <b>968,930</b>      | <b>802,142</b>      |

# OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

### 10. PROPERTY, PLANT AND EQUIPMENT

|   | Land and<br>buildings | Machinery<br>and<br>equipment | Other<br>assets      | Construction<br>in progress | Total                 |
|---|-----------------------|-------------------------------|----------------------|-----------------------------|-----------------------|
| <b>Cost</b>   |                       |                               |                      |                             |                       |
| <b>As at 1 January 2008</b>                               | 391,864               | 314,231                       | 91,651               | -                           | 797,746               |
| Additions   | 8,218                 | 38,860                        | 13,610               | 24,442                      | 85,130                |
| Acquired on acquisition of subsidiary                     | 51,327                | 3,435                         | 1,098                | -                           | 55,860                |
| Transfers   | 24,442                | -                             | -                    | (24,442)                    | -                     |
| Disposals   | (15,922)              | (9,530)                       | (649)                | -                           | (26,101)              |
| <b>As at 31 December 2008</b>                             | <u>459,929</u>        | <u>346,996</u>                | <u>105,710</u>       | <u>-</u>                    | <u>912,635</u>        |
| Additions   | 656                   | 25,633                        | 7,261                | -                           | 33,550                |
| Acquired on acquisition of subsidiary and group of assets | 141,270               | 2,622                         | 180                  | -                           | 144,072               |
| Disposals   | (2,008)               | (7,941)                       | (1,060)              | -                           | (11,009)              |
| <b>As at 31 December 2009</b>                             | <u>599,847</u>        | <u>367,310</u>                | <u>112,091</u>       | <u>-</u>                    | <u>1,079,248</u>      |
| <b>Accumulated depreciation</b>                           |                       |                               |                      |                             |                       |
| <b>As at 1 January 2008</b>                               | (22,813)              | (86,306)                      | (7,186)              | -                           | (116,305)             |
| Charge for the year                                       | (11,038)              | (43,753)                      | (6,526)              | -                           | (61,317)              |
| Disposals   | 5,008                 | 5,360                         | 150                  | -                           | 10,518                |
| <b>As at 31 December 2008</b>                             | <u>(28,843)</u>       | <u>(124,699)</u>              | <u>(13,562)</u>      | <u>-</u>                    | <u>(167,104)</u>      |
| Charge for the year                                       | (15,351)              | (42,461)                      | (10,324)             | -                           | (68,136)              |
| Disposals   | 7                     | 5,851                         | 491                  | -                           | 6,349                 |
| <b>As at 31 December 2009</b>                             | <u>(44,187)</u>       | <u>(161,309)</u>              | <u>(23,395)</u>      | <u>-</u>                    | <u>(228,891)</u>      |
| <b>As at 31 December 2008</b>                             | <u><b>431,086</b></u> | <u><b>222,297</b></u>         | <u><b>92,148</b></u> | <u><b>-</b></u>             | <u><b>745,531</b></u> |
| <b>As at 31 December 2009</b>                             | <u><b>555,660</b></u> | <u><b>206,001</b></u>         | <u><b>88,696</b></u> | <u><b>-</b></u>             | <u><b>850,357</b></u> |

As at 31 December 2009, property, plant and equipment with a carrying amount of 85,287 thousand Russian Rubles (2008: 205,802) has been pledged as security for certain borrowings granted to the Group (Notes 23). In addition, the Group contracted to pledge property with a carrying amount of 97,112 thousand Russian Rubles as a security for credit lines provided by OJSC "Sberbank RF" (Note 23). As at 31 December 2009 no draw downs were made from these credit lines.

### 11. GOODWILL

|   | 31 December<br>2009  | 31 December<br>2008 |
|---|----------------------|---------------------|
| <b>Balance as at 1 January</b>          | <b>8,799</b>         | <b>8,799</b>        |
| Acquisition of LLC "Industrial systems" | 5,041                | -                   |
| <b>Balance as at 31 December</b>        | <u><b>13,840</b></u> | <u><b>8,799</b></u> |
| <b>Carrying amount</b>                  | <u><b>13,840</b></u> | <u><b>8,799</b></u> |

As at 31 December 2009 the Group assessed the recoverable amount of goodwill and determined that it was not impaired.

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

### 12. INTANGIBLE ASSETS

|   | <u>Licence and<br/>patents</u> | <u>Software</u> | <u>Total</u>    |
|---|--------------------------------|-----------------|-----------------|
| <b>Cost</b>   |                                |                 |                 |
| <b>As at 1 January 2008</b>                             | 2,333                          | 7,619           | 9,952           |
| Additions   | 1,596                          | 13,024          | 14,620          |
| Additions as a result of business combinations          | -                              | 688             | 688             |
| <b>As at 31 December 2008</b>                           | <u>3,929</u>                   | <u>21,331</u>   | <u>25,260</u>   |
| Additions   | 5,402                          | 5,117           | 10,519          |
| Additions as a result of business combinations (Note 5) | -                              | 48              | 48              |
| Disposals   | -                              | (378)           | (378)           |
| <b>As at 31 December 2009</b>                           | <u>9,331</u>                   | <u>26,118</u>   | <u>35,449</u>   |
| <b>Accumulated amortisation</b>                         |                                |                 |                 |
| <b>As at 1 January 2008</b>                             | (689)                          | (512)           | (1,201)         |
| Charge for the year                                     | (1,006)                        | (7,920)         | (8,926)         |
| <b>As at 31 December 2008</b>                           | <u>(1,695)</u>                 | <u>(8,432)</u>  | <u>(10,127)</u> |
| Charge for the year                                     | (3,072)                        | (11,094)        | (14,166)        |
| <b>As at 31 December 2009</b>                           | <u>(4,767)</u>                 | <u>(19,526)</u> | <u>(24,293)</u> |
| <b>Carrying amount</b>                                  |                                |                 |                 |
| <b>As at 31 December 2008</b>                           | <u>2,234</u>                   | <u>12,899</u>   | <u>15,133</u>   |
| <b>As at 31 December 2009</b>                           | <u>4,564</u>                   | <u>6,592</u>    | <u>11,156</u>   |

### 13. INVESTMENTS IN ASSOCIATES

|  | <u>LCC “OZNA<br/>Imstalcon”</u> | <u>LLC “OZNA-<br/>Neftegazmash”</u> | <u>CJSC “TD<br/>OZNA”</u> | <u>Total</u>  |
|--|---------------------------------|-------------------------------------|---------------------------|---------------|
| <b>Carrying value as at 31<br/>December 2007</b> | <u>2,740</u>                    | <u>36,021</u>                       | <u>-</u>                  | <u>38,761</u> |
| Group's share in profit for the year             | 218                             | 72                                  | -                         | 290           |
| <b>Carrying value as at 31<br/>December 2008</b> | <u>2,958</u>                    | <u>36,093</u>                       | <u>-</u>                  | <u>39,051</u> |
| Acquisition of associate                         | -                               | -                                   | 24                        | 24            |
| Disposal of investments in<br>associate          | (2,958)                         | (36,093)                            | -                         | (39,051)      |
| Group's share in profit for the year             | -                               | -                                   | 38                        | 38            |
| <b>Carrying value as at 31<br/>December 2009</b> | <u>-</u>                        | <u>-</u>                            | <u>62</u>                 | <u>62</u>     |

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

### Acquisition of LLC “OZNA-Neftegazmash”

As at 01 January 2009 the Group owned 30.5% of charter capital of LLC “OZNA-Neftegazmash” which gave the Group significant influence over LLC “OZNA-Neftegazmash”. Therefore, this investment was accounted for as the investment in associate in the consolidated financial statements of HC OZNA. As at 01 January 2009 investment in LLC “OZNA-Neftegazmash” accounted for 36,093 thousands of Russian Rubles. In February 2009 the Group acquired additional 30.24% of LLC “OZNA-Neftegazmash” from LLC “VEK” for 41,800 thousands of Russian Rubles.

The Group believes that LLC “OZNA-Neftegazmash” represents a group of assets that do not constitute a business as the only activity performed by LLC “OZNA-Neftegazmash” is renting out of production facilities to OJSC “AK OZNA”. Thus, definition of business set out in IFRS 3 “Business combination” is not met. Therefore, the Group treated acquisition of LLC “OZNA-Neftegazmash” as an acquisition of assets. Cost of the assets acquired was determined by reference to an independent appraisal carried out as at the date of acquisition. The summary of cost and book value of assets acquired is presented below:

|  | <b>Cost on acquisition</b> |
|--|----------------------------|
| Property, plant and equipment            | 126,561                    |
| Other net assets                         | 1,163                      |
| Cash                                     | 531                        |
|  | <b>128,255</b>             |
| Non-controlling interest                 | 50,362                     |
| Investment in associate (30.5%)          | 36,093                     |
| Consideration satisfied by cash (30.24%) | 41,800                     |

Details of the Group’s significant associate as at 31 December 2009 is as follows:

| Name of associate | Country            | Date of acquisition | Principal activity | Ownership, %     |                  |
|-------------------|--------------------|---------------------|--------------------|------------------|------------------|
|                   |                    |                     |                    | 31 December 2009 | 31 December 2008 |
| CJSC “TD OZNA”    | Russian Federation | 29 January 2009     | Wholesale trade    | 24%              | 0%               |

Summarised financial information in respect of CJSC “TD OZNA” is presented below:

|   | <b>31 December 2009</b> | <b>31 December 2008</b> |
|---|-------------------------|-------------------------|
| Total assets                            | 195                     | 565                     |
| Total liabilities                       | 37                      | 586                     |
| Net assets                              | <b>158</b>              | <b>(21)</b>             |
| Group’s share of associate’s net assets | <b>38</b>               | <b>-</b>                |

## OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

#### 14. INVENTORIES

|   | <u>31 December<br/>2009</u> | <u>31 December<br/>2008</u> |
|---|-----------------------------|-----------------------------|
| Raw materials, including:                   |                             |                             |
| Components                                  | 299,946                     | 452,236                     |
| Metal                                       | 83,869                      | 144,534                     |
| Electronic parts                            | 52,623                      | 61,165                      |
| Construction materials                      | 2,147                       | 13,027                      |
| Armature parts                              | 22,647                      | 8,275                       |
| Other                                       | 39,434                      | 80,602                      |
| Less: allowance for slow-moving inventories | <u>(1,026)</u>              | <u>(6,397)</u>              |
| Total raw materials                         | 499,640                     | 753,442                     |
| Work in progress                            | 232,904                     | 261,433                     |
| Finished goods                              | 419,326                     | 356,496                     |
| Goods for resale                            | <u>7,807</u>                | <u>361</u>                  |
| <b>Total</b>                                | <b><u>1,159,677</u></b>     | <b><u>1,371,732</u></b>     |

As at 31 December 2009, raw materials and finished goods with a carrying amount of 228,078 thousand Russian Rubles (2008: 150,843) were pledged as security for short-term borrowings granted to the Group (Note 23). In addition, the Group contracted to pledge inventory with a carrying amount of 523,947 thousand Russian Rubles as a security for credit lines provided by OJSC “Sberbank RF” (Note 23). As at 31 December 2009 no draw downs were made from these credit lines.

#### 15. TRADE AND OTHER RECEIVABLES

|  | <u>31 December<br/>2009</u> | <u>31 December<br/>2008</u> |
|--|-----------------------------|-----------------------------|
| Long-term trade and other receivables          | 38,789                      | -                           |
| Trade accounts receivable from third parties   | 1,420,191                   | 620,211                     |
| Trade accounts receivable from related parties | 11,473                      | 309                         |
| Advances paid to third parties                 | 273,601                     | 165,000                     |
| Advances paid to related parties               | 2,904                       | 665                         |
| Other receivables and prepayments              | 24,867                      | 20,151                      |
| Other receivables from related parties         | 21,960                      | 814                         |
| Less: allowance for doubtful receivables       | <u>(14,235)</u>             | <u>(16,837)</u>             |
| <b>Total</b>                                   | <b><u>1,779,550</u></b>     | <b><u>790,313</u></b>       |

Long term trade receivables are trade receivables from CJSC “Vankorneft”, major customer of the Group. Effective sales contracts with CJSC “Vankorneft” contain a provision that 5% of sales price of equipment is settled upon the fulfillment of start-up works required to put equipment in use. Thus long term trade receivables represent 5% of the sales price of equipment sold to CJSC “Vankorneft” in 2009 that is going to be put in use in 2011.

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 represent 74.3% (2008: 93.8%) of the outstanding balance.

## OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

Included in the Group's receivable balance are debtors with a carrying amount of 254,257 thousand rubles (2008: 536,633) 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:

|                   | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
|-------------------|-----------------------------|-----------------------------|
| less than 30 days | 17,745                      | 268,746                     |
| 30-90 days        | 53,922                      | 73,761                      |
| 90-180 days       | 161,732                     | 4,395                       |
| 180-360 days      | 16,459                      | 52,165                      |
| Thereafter        | 4,399                       | 137,566                     |
| <b>Total</b>      | <b>254,257</b>              | <b>536,633</b>              |

Movement in allowance for doubtful trade and other receivables:

|   | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
|---|-----------------------------|-----------------------------|
| <b>Balance at the beginning of the year</b> | <b>16,837</b>               | <b>11,259</b>               |
| Recognised in profit or loss                | 4,198                       | 5,578                       |
| Amounts written-off as uncollected          | (6,800)                     | -                           |
| Amount recovered during the year            | -                           | -                           |
| <b>Balance at the end of the year</b>       | <b>14,235</b>               | <b>16,837</b>               |

Ageing of impaired trade and other receivables:

|                   | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
|-------------------|-----------------------------|-----------------------------|
| less than 30 days | -                           | -                           |
| 30-90 days        | -                           | 620                         |
| 90-180 days       | -                           | 551                         |
| 180-360 days      | 4,409                       | 246                         |
| Thereafter        | 9,826                       | 15,420                      |
| <b>Total</b>      | <b>14,235</b>               | <b>16,837</b>               |

#### 16. VALUE-ADDED TAX AND OTHER TAXES RECEIVABLES

|                        | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
|------------------------|-----------------------------|-----------------------------|
| VAT reimbursable       | 127,570                     | 100,072                     |
| Other taxes receivable | 2,392                       | 4,222                       |
| <b>Total</b>           | <b>129,962</b>              | <b>104,294</b>              |

# OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

### 17. SHORT-TERM INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

|                                     | <u>31 December<br/>2009</u> | <u>31 December<br/>2008</u> |
|-------------------------------------|-----------------------------|-----------------------------|
| Redeemable notes from third parties | 38,361                      | 963                         |
|                                     | <u>38,361</u>               | <u>963</u>                  |
| Loans given to third parties        | 10,080                      | 37,600                      |
| Loans given to related parties      | 37,630                      | 72,108                      |
|                                     | <u>37,630</u>               | <u>72,108</u>               |
| <b>Total</b>                        | <b><u>86,071</u></b>        | <b><u>110,671</u></b>       |

### 18. CASH AND CASH EQUIVALENTS

|                       | <u>31 December<br/>2009</u> | <u>31 December<br/>2008</u> |
|-----------------------|-----------------------------|-----------------------------|
| Bank deposits         | 10,400                      | 307,668                     |
| Cash in banks, in RUR | 44,704                      | 54,718                      |
| Cash in banks, in USD | 92                          | 1,222                       |
| Cash in hand          | 62                          | 48                          |
|                       | <u>62</u>                   | <u>48</u>                   |
| <b>Total</b>          | <b><u>55,258</u></b>        | <b><u>363,656</u></b>       |

Short-term bank deposits as at 31 December 2009 have maturity up to three months and can be withdrawn without any restrictions.

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

### 19. SHAREHOLDERS' EQUITY

#### Share capital and share premium

The share capital of the Group as at 31 December 2009 consists of 563,597,774 (2008: 504,369,264) authorized, issued and fully paid ordinary shares with a par value of 1 Russian Ruble.

In 2009 OJSC "HC "OZNA" issued additional 59,228,510 shares with a share floatation value of 5.3 Russian Ruble, which were paid in cash, totally 313,911 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. The excess of share floatation value over par value of 254,682 thousand Russian Rubles was recognized as share premium.

The shareholders of the Group are represented by:

| <b>Shareholder</b>                | <b>Year ended 31<br/>December 2009,<br/>%</b> | <b>% Year ended 31<br/>December 2008,<br/>%</b> |
|-----------------------------------|---|---|
| Marat Marsovich Akhmetshin        | 24.67   | 27.56   |
| Marat Familyevich Fattakhov       | 24.67   | 27.56   |
| Artur Valeryevich Khazigaleev     | 24.67   | 27.56   |
| Yurals Holding BV                 | 25.99   | -   |
| A.F.K.A. holding (Cyprus) Limited | -   | 17.32   |
|                                   | <u>-</u>                                      | <u>17.32</u>                                    |
| <b>Total</b>                      | <b><u>100.00</u></b>                          | <b><u>100.00</u></b>                            |

# OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

### Dividends

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

## 20. INCOME TAX EXPENSE

The Group's applicable tax rate is the income tax rate of 20% for Russian companies effective from 1 January 2009 (2008: 24%).

### Income tax recognized in profit or loss

|                                      | Year ended<br>31 December<br>2009 | Year ended<br>31 December<br>2008 |
|--------------------------------------|-----------------------------------|-----------------------------------|
| Current income tax                   | 113,634                           | 130,710                           |
| Deferred tax benefit                 | (3,734)                           | (30,747)                          |
| Effect of the income tax rate change | -                                 | (6,068)                           |
| <b>Income tax expense</b>            | <b>109,900</b>                    | <b>93,895</b>                     |

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.

### Deferred tax assets and liabilities

The tax effect of the major temporary differences that gave rise to the deferred tax assets and liabilities as at 31 December 2009 and 2008 is presented below:

|                                 | 31 December<br>2009 | 31 December<br>2008 |
|---------------------------------|---------------------|---------------------|
| <b>Deferred tax assets</b>      |                     |                     |
| Accrual and other payables      | 30,442              | 13,757              |
| Inventories                     | 9,769               | 8,104               |
| Property, plant and equipment   | 7,817               | 8,253               |
| Prepaid expenses                | 5,676               | 6,532               |
| Trade and other receivables     | 2,842               | 42,610              |
| Other adjustments               | 2,321               | -                   |
| Set off of tax                  | (45,822)            | (62,464)            |
| <b>Total</b>                    | <b>13,045</b>       | <b>16,792</b>       |
| <b>Deferred tax liabilities</b> |                     |                     |
| Property, plant and equipment   | 86,266              | 78,892              |
| Inventories                     | -                   | 23,552              |
| Other adjustments               | 1,427               | 7,153               |
| Set off of tax                  | (45,822)            | (62,464)            |
| <b>Total</b>                    | <b>41,871</b>       | <b>47,133</b>       |

All movements in temporary differences were recognized in profit or loss, except for the amount recognized as part of business combination.

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

A temporary difference of 1,343,630 thousand Russian Rubles relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

### Reconciliation of effective tax rate

|  | Year ended          |           |                     |           |
|--|---------------------|-----------|---------------------|-----------|
|  | 31 December<br>2009 | %         | 31 December<br>2008 | %         |
| Profit before income tax   | 417,308             | 100       | 371,895             | 100       |
| Income tax at applicable tax rate                                    | 83,462              | 20        | 89,255              | 24        |
| Adjustments due to:  |                     |           |                     |           |
| Tax effect of expenses that are not deductible for taxation purposes | 26,438              | 6         | 10,708              | 3         |
| Effect of the income tax rate change                                 | -                   | -         | (6,068)             | (2)       |
| <b>Income tax expense</b>  | <b>109,900</b>      | <b>26</b> | <b>93,895</b>       | <b>25</b> |

### 21. TRADE PAYABLES

|   | 31 December<br>2009 | 31 December<br>2008 |
|---|---------------------|---------------------|
| Trade payables to third parties         | 871,740             | 617,543             |
| Trade payables to associates            | -                   | 3,431               |
| Trade payables to other related parties | 6,611               | 4,433               |
| <b>Total</b>                            | <b>878,351</b>      | <b>625,407</b>      |

### 22. TAXES PAYABLE

|                     | 31 December<br>2009 | 31 December<br>2008 |
|---------------------|---------------------|---------------------|
| Value-added tax     | 172,701             | 121,828             |
| Unified social tax  | 18,140              | 12,449              |
| Personal income tax | 21,369              | 8,046               |
| Property tax        | 2,542               | 1,831               |
| Other               | 1,078               | 802                 |
| <b>Total</b>        | <b>215,830</b>      | <b>144,956</b>      |

### 23. SHORT-TERM BORROWINGS

|                           | Denominated<br>in currency | Interest rate,<br>2009 | Interest rate,<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
|---------------------------|----------------------------|------------------------|------------------------|---------------------|---------------------|
| OJSC “Sberbank RF”        | RUR                        | 11.75%-18%             | 8%-17%                 | 211,020             | 356,871             |
| CJSC “UniCredit Bank”     | RUR                        | -                      | 8%-24.5%               | -                   | 35,009              |
| OJSC “West-Siberian Bank” | RUR                        | -                      | 11.5%-14.7%            | -                   | 19,974              |
| OJSC “Neftegazmash”       | RUR                        | 10%                    | 10%                    | 2,899               | 2,647               |
| <b>Total</b>              |                            |                        |                        | <b>213,919</b>      | <b>414,501</b>      |

Bank loans outstanding as at 31 December 2009 are secured by property, plant and equipment with a carrying amount of 85,287 thousand Russian Rubles (Note10) and inventory with a carrying amount of 228,078 thousand Russian Rubles (Note 14). In addition, the Group may enjoy credit lines

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

of 417,000 thousand Russian Rubles provided by OJSC “Sberbank RF”. These lines are secured by property, plant and equipment with a carrying amount of 97,112 thousand Russian Rubles and inventory with a carrying amount of 523,947 thousand Russian Rubles. As at 31 December 2009 no draw downs were made from these credit lines.

As at 31 December 2009 the Group also contracted banks to issue bank guarantees to Group’s customers against the advances to the Group for the future delivery of the goods and services to the total amount of 300,076 thousand Russian Rubles. These bank guarantees are secured by property, plant and equipment with carrying amount of 23,953 thousand Russian Rubles, inventory with carrying amount of 50,351 thousand Russian Rubles and promissory notes with fair value of 37,398 thousand Russian Rubles.

### 24. ACCRUALS AND OTHER PAYABLES

Short-term accruals as at 31 December 2009 and 2008 consisted of the following:

|                             | <u>31 December<br/>2009</u> | <u>31 December<br/>2008</u> |
|-----------------------------|-----------------------------|-----------------------------|
| Payroll and bonus accrual   | 162,409                     | 92,864                      |
| Unused vacation accrual     | 48,309                      | 17,948                      |
| Warranty provision          | 6,858                       | 11,836                      |
| Other accruals and payables | <u>32,322</u>               | <u>6,923</u>                |
| <b>Total</b>                | <b><u>249,898</u></b>       | <b><u>129,571</u></b>       |

### 25. RELATED PARTIES

#### Control relationship

The Company does not have a parent company. The Company’s ultimate shareholders are disclosed in note 19.

#### Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs:

|                                    | <u>Year ended</u>           |                             |
|------------------------------------|-----------------------------|-----------------------------|
|                                    | <u>31 December<br/>2009</u> | <u>31 December<br/>2008</u> |
| Salaries                           | 11,552                      | 8,176                       |
| Bonuses                            | 87,648                      | 49,483                      |
| Unified social tax                 | 3,068                       | 2,042                       |
| Other short-term benefits provided | 370                         | -                           |
| Termination benefits               | <u>-</u>                    | <u>319</u>                  |
| <b>Total</b>                       | <b><u>102,638</u></b>       | <b><u>60,020</u></b>        |

#### Other transactions

As at 31 December 2009 loans to directors amounted to 3,340 thousand Russian Rubles including interest receivable (2008: 22,284 thousand Russian Rubles).

# OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

### Transactions with other related parties

The Group had the following significant transactions with associates and other related parties:

|  | Year ended          |                     |
|--|---------------------|---------------------|
|  | 31 December<br>2009 | 31 December<br>2008 |
| Revenue from other related parties         | 60,214              | 552                 |
| Purchases from associate parties           | 8,639               | 10,440              |
| Purchases from other related parties       | 50,459              | 2,058               |
| Interest income from associate parties     | -                   | 1,063               |
| Interest income from other related parties | 4,482               | 5,540               |
| Interest expense to associate parties      | -                   | 1,966               |
| Interest expense to other related parties  | 250                 | 147                 |

The Group had the following significant balances with associates and other related parties:

|  | Year ended          |                     |
|--|---------------------|---------------------|
|  | 31 December<br>2009 | 31 December<br>2008 |
| Loans given to related parties                 | 37,630              | 72,108              |
| Loans received from related parties            | 2,899               | 2,647               |
| Trade accounts receivable from related parties | 11,473              | 309                 |
| Advances paid to related parties               | 2,904               | 665                 |
| Other receivables from related parties         | 21,960              | 814                 |
| Trade payables to associate parties            | -                   | 3,431               |
| Trade payables to other related parties        | 6,611               | 4,433               |
| Other current payables from related parties    | 16,170              | -                   |

Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties. Interest rate on loans given to related parties as at 31 December 2009 are from 12% to 19%.

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

## 26. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**Property, plant and equipment** - The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

---

reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

**Intangible assets** - The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

**Inventories** - The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

**Investments in equity and debt securities** - The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

**Trade and other receivables** - The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

**Non-derivative financial liabilities** - Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

## 27. OPERATING LEASES

The Group leases land plots, office facilities and other assets owned by local authorities and the private companies under operating lease agreements.

Non-cancellable operating lease rentals are payable as follows:

|                   | Year ended          |                     |
|-------------------|---------------------|---------------------|
|                   | 31 December<br>2009 | 31 December<br>2008 |
| Less than 1 year  | 23,432              | 16,955              |
| 1-5 years         | 41,954              | 7,709               |
| More than 5 years | -                   | -                   |
| <b>Total</b>      | <b>65,386</b>       | <b>24,664</b>       |

Land plots leased by the Group represent areas on which industrial buildings are located. The duration of the operating leases contracts are as follows: minimum period makes 5,4 years, maximum - 9,9 years.

During the current year 31,375 thousand Russian Rubles was recognized in profit or loss in respect of operating leases (2008: 21,993 thousand Russian Rubles).

# OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

### 28. 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.

|  | <u>31 December<br/>2009</u> | <u>31 December<br/>2008</u> |
|--|-----------------------------|-----------------------------|
| <b>Financial assets</b>  |                             |                             |
| <i>Loans and receivables (including cash and cash equivalents)</i> |                             |                             |
| Cash and cash equivalents  | 44,858                      | 55,988                      |
| Bank deposits  | 10,400                      | 307,668                     |
| Redeemable notes   | 38,361                      | 963                         |
| Loans given  | 47,710                      | 109,708                     |
| Trade receivables  | <u>1,470,453</u>            | <u>620,520</u>              |
| <b>Total financial assets</b>                                      | <b><u>1,611,782</u></b>     | <b><u>1,094,847</u></b>     |
| <b>Financial liabilities</b>                                       |                             |                             |
| <i>Measured at amortised cost</i>                                  |                             |                             |
| Loans and borrowings   | 213,919                     | 414,501                     |
| Trade payables   | <u>878,351</u>              | <u>625,407</u>              |
| <b>Total financial liabilities</b>                                 | <b><u>1,092,270</u></b>     | <b><u>1,039,908</u></b>     |

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 the customers from Russian Federation make more than 90% of the Group's annual turnover. The Group hasn't hedged the mentioned risk with the help of any financial instruments.

##### *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 do not 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.

# OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

### Price risk

Management considers the Group not to be influenced by security price risk as it does not have ready for sale investments. The Group does not 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 of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. 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 multinational banks, having independent credit rating. All account balances haven't exceeded the time limit and aren't devalued.

**Buyers and customers debts.** The Group has a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer, and represent the maximum open amount without requiring approval from General Director; these limits are stipulated in sales policy.

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

|                       | Customer location | 31 December 2009       |                     | 31 December 2008       |                     |
|-----------------------|-------------------|------------------------|---------------------|------------------------|---------------------|
|                       |                   | % in total receivables | Outstanding balance | % in total receivables | Outstanding balance |
| OJSC "NK Rosneft"     | Moscow            | 53.6%                  | 953,944             | 45.2%                  | 357,451             |
| OJSC "AK Transneft"   | Moscow            | 13.2%                  | 234,782             | 0.4%                   | 3,000               |
| OJSC "Surgutneftegaz" | Surgut            | 3.4%                   | 59,895              | 8.1%                   | 64,141              |
| OJSC "TNK-BP Holding" | Moscow            |                        |                     |                        |                     |
|                       | /Nizhnevartovsk   | 2.7%                   | 47,405              | 9.2%                   | 72,449              |
| LLC "UNG service"     | Nefteugansk       | 1.4%                   | 24,518              | 30.9%                  | 244,069             |
| <b>Total</b>          |                   | <b>74.3%</b>           | <b>1,320,544</b>    | <b>93.8%</b>           | <b>741,110</b>      |

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The above mentioned minimal cash levels are held on cash account balances, bank deposits, short-term investments, cash and other financial instruments that can be classified as cash equivalents.

The table below summarizes the maturity profile of the Group's trade payables and payables for operational activity as at 31 December 2009 and 2008, based on contractual undiscounted payments:

|                                      | 31 December 2009 | 31 December 2008 |
|--------------------------------------|------------------|------------------|
| On demand                            | 664,062          | 67,341           |
| Due within three months              | 152,993          | 53,840           |
| Due from three to six months         | 55,292           | 9,309            |
| Due from six months to twelve months | 1,262            | 484,557          |
| Due within more than twelve months   | 4,742            | 10,360           |
| <b>Total</b>                         | <b>878,351</b>   | <b>625,407</b>   |

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of Russian Rubles, unless otherwise stated)

The Group short-term borrowings are repayable as follows:

|                                 | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
|---------------------------------|-----------------------------|-----------------------------|
| Due within three months         | 113,452                     | 171,042                     |
| Due from three to twelve months | 100,467                     | 243,459                     |
| <b>Total</b>                    | <b>213,919</b>              | <b>414,501</b>              |
|                                 | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
| Interest expense                | 61,585                      | 77,893                      |
| Interest paid                   | 62,193                      | 80,147                      |

### 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:

|                                     | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
|-------------------------------------|-----------------------------|-----------------------------|
| Debt (i)                            | 213,919                     | 414,501                     |
| Cash and cash equivalents (Note 18) | 55,258                      | 363,656                     |
| Net debt                            | 158,661                     | 50,845                      |
| Equity (ii)                         | 2,081,044                   | 1,455,796                   |
| <b>Net debt to equity ratio</b>     | <b>0.08</b>                 | <b>0.03</b>                 |

(i) Debt is defined as short-term borrowings, as detailed in Note 23;

(ii) Equity includes share capital and all reserves of the Group.

### Net debt /EBITDA

Net debt /EBITDA as at 31 December 2009 and 2008:

|                                    | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
|------------------------------------|-----------------------------|-----------------------------|
| Profit before income tax           | 417,308                     | 371,895                     |
| Plus depreciation and amortisation | 80,359                      | 67,411                      |
| Plus interest expense              | 61,585                      | 77,893                      |
| Minus interest income              | 19,686                      | 10,875                      |
| <b>EBITDA</b>                      | <b>539,566</b>              | <b>506,324</b>              |
| Net debt                           | 158,661                     | 50,845                      |
| <b>Net debt/EBITDA</b>             | <b>0.29</b>                 | <b>0.10</b>                 |

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of Russian Rubles, unless otherwise stated)*

---

### 29. 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 taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, 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 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.

#### 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.

#### Insurance

In 2009 management has determined the following main insurance types according to the Group insurance policy:

- Property insurance;
- Fire dangerous objects insurance;
- Third parties liability insurance of risks associated with start-up and installation works;
- 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

The Group does not have capital commitments as at 31 December 2009 (2008: 1,019 thousand of Russian Rubles).

# OPEN JOINT STOCK COMPANY “HC “OZNA” AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

*(in thousands of Russian Rubles, unless otherwise stated)*

---

### 30. EVENTS AFTER THE BALANCE SHEET DATE

On 30 April 2010 the Group established a new subsidiary “OZNA – Metering Systems” with a share capital of 200 thousands of Russian Rubles. This company will be mainly engaged in production of measuring equipment.

On 28 May 2010 the decision was made to rename CJSC “Nature Development Institute” into CJSC “OZNA-Project”. This decision was made as a part of the branding strategy of the Group.