



**HMS Hydraulic Machines & Systems
Group plc**

**Consolidated Condensed Interim
Financial Information (unaudited)**

30 September 2010

Contents

Report on review of consolidated condensed interim financial information

Consolidated Condensed Interim Statement of Financial Position.....	1
Consolidated Condensed Interim Statement of Comprehensive Income.....	2
Consolidated Condensed Interim Statement of Cash Flows.....	3
Consolidated Condensed Interim Statement of Changes in Equity.....	4

Notes to the Consolidated Condensed Interim Financial Information

1	General Information.....	5
2	Basis of Preparation.....	5
3	Accounting Policies and Critical Accounting Estimates and Judgments.....	6
4	Adoption of New or Revised Standards and Interpretations.....	7
5	New Accounting Pronouncements.....	9
6	Property, Plant and Equipment.....	11
7	Other Intangible Assets.....	12
8	Goodwill.....	13
9	Business Combinations.....	14
10	Investments in Associates.....	17
11	Cash and Cash Equivalents.....	17
12	Inventories.....	17
13	Trade and Other Receivables and Other Financial Assets.....	18
14	Non-current Assets Held for Sale.....	18
15	Borrowings.....	18
16	Retirement Benefit Obligations.....	19
17	Construction Contracts.....	20
18	Trade and Other Payables.....	20
19	Other Taxes Payable.....	21
20	Provisions for Liabilities and Charges.....	21
21	Share Capital, Other Equity Items and Earnings per Share.....	21
22	Income Taxes.....	22
23	Revenue.....	22
24	Cost of Sales.....	23
25	Distribution and Transportation Expenses.....	23
26	General and Administrative Expenses.....	23
27	Other Operating Expenses, Net.....	24
28	Finance Income.....	24
29	Finance Costs.....	24
30	Balances and Transactions with Related Parties.....	24
31	Contingencies and Commitments.....	25
32	Segment Information.....	27
33	Subsequent Events.....	30

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Report on review of consolidated condensed interim financial information

To the Board of Directors of HMS Hydraulic Machines & Systems Group plc:

Introduction

We have reviewed the accompanying consolidated condensed interim statement of financial position of HMS Hydraulic Machines & Systems Group plc (the "Company") and its subsidiaries (the "Group") at 30 September 2010 and the related consolidated condensed interim statement of comprehensive income, consolidated condensed interim statement of cash flows and consolidated condensed interim statement of changes in equity for the nine-month period then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34, "Interim financial reporting". Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim financial reporting".

PricewaterhouseCoopers

PricewaterhouseCoopers Limited
Chartered Accountants

Limassol, 4 January 2011


Board Members: Phidias K Piliadis (CEO), Dinos N Papadopoulos (Deputy CEO), Panikos N Tsamts, Christakis Santis, Stephos D Stephanides, Costas L Hadjiconstantinou, George Foraderis, Costas M Nicolaidis, Angelos M Loizou, Vasilis Hadjivassiliou, Androulla S Pliatas, Sarvas C Michail, Costas L Mavrocordatos, Christos M Themistocleous, Panikos Keouris, Nicos A Neophytou, George M Loizou, Pantelis G Evangelou, Lefkos M Theodorou, Stelios Constantinou, Tassos Procopiou, Andreas T Constantinides, Theo Parperis, Constantinos Constandinou, Petros C Petrakis, Philippos C Bosenikas, Evgenios C Evgeniou, Christos Tsolakis, Nicos A Theodorou, Nikos T Nikolaidis, Cleo A Papadopoulou, Marios S Andreou, Nicos P Chimarides, Aram Tavilian, Constantinos Tallotis, Stavros A Kattamis, Ylango A Kapourides, Tassos N Nolas, Chrysillos K Pelekanos, Efthychios Efthychiou, George C Lambrou, Chris Odysseos, Constantinos L Kapsalis, Stelios A Violaris, Antonis Hadjioucas, Petros N Maroudias, George C Kazamias, Loizos A Markides
Directors of Operations: Androulla Arsiidou, Achilles Chrysanthou, George Skapoullaros, Demetris V Psaftis, George A Ioannou, Michaeli Kiriolis, Marios G Melanides, Sophie A Solomonidou, Yiannis Televantides, Antonis C Christodoulides, Anna G Loizou, Stelios S Anastasiou, Christos S Charalambides, Ioanna I Stylianidou, Florentia Kyriakidou Teloni

HMS Hydraulic Machines & Systems Group plc
Consolidated Condensed Interim Statement of Financial Position
at 30 September 2010 (unaudited)
(in thousands of Russian Roubles, unless otherwise stated)

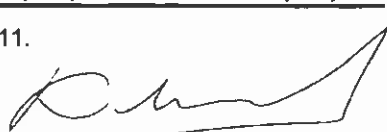


	Note	30 September 2010	31 December 2009
ASSETS			
Non-current assets:			
Property, plant and equipment	6	5,714,419	3,954,807
Other intangible assets	7	87,265	47,109
Goodwill	8	1,873,992	306,992
Investments in associates	10	501,453	507,293
Deferred income tax assets		93,412	53,992
Other long-term receivables		163,889	61,362
Total non-current assets		8,434,430	4,931,555
Current assets:			
Inventories	12	3,259,431	3,179,644
Trade and other receivables and other financial assets	13	10,953,752	2,778,048
Current income tax receivable		75,784	58,016
Prepaid expenses		46,230	36,213
Cash and cash equivalents	11	1,899,182	758,127
Restricted cash	11	3,768	905
		16,238,147	6,810,953
Non-current assets held for sale	14	96,255	-
Total current assets		16,334,402	6,810,953
TOTAL ASSETS		24,768,832	11,742,508
EQUITY AND LIABILITIES			
EQUITY			
Share capital	21	36,154	36,154
Share premium	21	210,862	210,862
Share capital to be issued	21	6,356	6,356
Currency translation reserve		(215,099)	(168,051)
Retained earnings		2,454,819	1,480,712
Other reserves		122,841	37,035
Equity attributable to the Company's equity holders		2,615,933	1,603,068
Non-controlling interest		1,493,756	669,631
TOTAL EQUITY		4,109,689	2,272,699
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	15	4,134,881	3,429,475
Finance lease liability		341	8,479
Deferred income tax liability		607,813	197,307
Pension liability	16	293,589	125,407
Long-term payables		49,234	-
Provisions for liabilities and charges	20	29,570	11,550
Total non-current liabilities		5,115,428	3,772,218
Current liabilities:			
Trade and other payables	18	12,906,129	3,255,533
Short-term borrowings	15	941,722	1,879,914
Provisions for liabilities and charges	20	224,174	209,760
Finance lease liability		11,053	13,094
Pension liability	16	9,492	20,922
Current income tax payable		47,228	25,069
Other taxes payable	19	1,403,917	293,299
Total current liabilities		15,543,715	5,697,591
TOTAL LIABILITIES		20,659,143	9,469,809
TOTAL EQUITY AND LIABILITIES		24,768,832	11,742,508

Approved for issue and signed on behalf of the Board of Directors on 4 January 2011.



 A.V. Molchanov
 Director



 K.V. Molchanov
 Director

The accompanying notes on pages 5 to 30 are an integral part of this consolidated condensed interim financial information.

	Note	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Revenue	23	16,157,721	9,775,040
Cost of sales	24	(12,299,622)	(7,097,756)
Gross profit		3,858,099	2,677,284
Distribution and transportation expenses	25	(398,381)	(367,554)
General and administrative expenses	26	(1,374,456)	(1,318,259)
Other operating expenses, net	27	(54,014)	(90,515)
Impairment of goodwill	8	-	(116,998)
Operating profit		2,031,248	783,958
Finance income	28	45,614	41,564
Finance costs	29	(668,200)	(658,315)
Share of results of associates	10	9,271	22,920
Profit before income tax		1,417,933	190,127
Income tax expense	22	(329,124)	(137,954)
Profit for the period		1,088,809	52,173
Profit attributable to:			
Equity holders of the Company		994,174	(46,100)
Non-controlling interest		94,635	98,273
Profit for the period		1,088,809	52,173
Currency translation differences		(62,151)	(99,812)
Currency translation differences of associates	10	1,690	(3,514)
Other comprehensive loss for the period		(60,461)	(103,326)
Total comprehensive income/(loss) for the period		1,028,348	(51,153)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		947,126	(121,713)
Non-controlling interest		81,222	70,560
Total comprehensive income/(loss) for the period		1,028,348	(51,153)
Basic and diluted earnings per ordinary share for profit/(loss) attributable to the ordinary shareholders	21	9.690	(0.449)

HMS Hydraulic Machines & Systems Group plc
Consolidated Condensed Interim Statement of Cash Flows
for the nine months ended 30 September 2010 (unaudited)
(in thousands of Russian Roubles, unless otherwise stated)



	Note	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Cash flows from operating activities			
Profit before income tax		1,417,933	190,127
Adjustments for:			
Depreciation and amortisation	6,7	267,373	257,949
(Gain)/loss from disposal of property, plant and equipment and intangible assets	27	(15,704)	4,929
Finance income	28	(45,614)	(46,611)
Finance costs	29	667,534	658,315
Pension expenses/(income)	16	45,830	(13,335)
Warranty provision	24	22,376	11,434
Impairment of taxes receivable	27	13,275	-
Interest expense related to construction contracts		16,330	-
Provision for impairment of accounts receivable	26	(35,527)	57,934
Provision for obsolete inventories	24	(112,560)	93,887
Foreign exchange translation differences	28,29	666	(3,169)
Provisions for legal claims	26	(8,891)	13,678
Provision for VAT receivable	26	4,727	29,991
Share of results of associates	10	(9,271)	(22,920)
Impairment of goodwill	8	-	116,998
Impairment of property, plant and equipment and intangible assets	6,7,24	-	14,320
Loss on disposal of subsidiaries		4,360	-
Other non-cash items		(3,902)	905
Operating cash flows before working capital changes		2,228,935	1,364,432
Decrease/(increase) in inventories		43,791	(71,152)
Increase in trade and other receivables		(7,622,759)	(31,631)
Increase in taxes payable		1,034,084	18,949
Increase/(decrease) in accounts payable and accrued liabilities		9,027,080	(509,513)
Restricted cash		(2,863)	(222)
Cash generated from operations		4,708,268	770,863
Income tax paid		(164,089)	(232,314)
Interest paid		(684,277)	(654,985)
Net cash from/(used in) operating activities		3,859,902	(116,436)
Cash flows from investing activities			
Repayment of loans advanced		67,289	56,509
Loans advanced		(5,337)	(154,131)
Proceeds from sale of property, plant and equipment		6,220	536
Interest received		18,175	18,693
Dividends received	10	15,288	9,385
Purchase of property, plant and equipment		(456,346)	(178,594)
Acquisition of associates	10	-	(122,756)
Acquisitions of subsidiaries, net of cash acquired	9	(2,339,457)	(239,806)
Proceeds from disposal of subsidiaries, net of cash disposed		7,475	-
Acquisition of intangible assets		(21,353)	(15,642)
Net cash used in investing activities		(2,708,046)	(625,806)
Cash flows from financing activities			
Repayments of borrowings		(7,283,499)	(3,630,625)
Proceeds from borrowings		7,492,040	4,365,128
Payment for finance lease		(10,179)	(13,057)
Acquisition of non-controlling interest in subsidiaries	9	(576,878)	(104,580)
Cash received from capital contribution		85,806	-
Cash received from additional share issue of subsidiary		428,420	-
Dividends paid to non-controlling shareholders of subsidiaries		(145,937)	(209)
Net cash (used in)/from financing activities		(10,227)	616,657
Net increase/(decrease) in cash and cash equivalents		1,141,829	(125,585)
Effect of exchange rate changes on cash and cash equivalents		(574)	(7,773)
Cash and cash equivalents at the beginning of the period		758,127	669,482
Cash and cash equivalents at the end of the period		1,899,182	536,124

The accompanying notes on pages 5 to 30 are an integral part of this consolidated condensed interim financial information.

HMS Hydraulic Machines & Systems Group plc
Consolidated Condensed Interim Statement of Changes in Equity for the nine months ended 30 September 2010 (unaudited)
(in thousands of Russian Roubles, unless otherwise stated)



Capital and reserves attributable to the equity holders of the Company									
Note	Share capital	Share premium	Share capital to be issued	Other reserves	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2009	36,154	210,862	6,356	37,035	(122,942)	1,820,958	1,988,423	648,114	2,636,537
Profit for the period	-	-	-	-	-	(46,101)	(46,101)	98,274	52,173
Other comprehensive loss									
Change in cumulative currency translation reserve	-	-	-	-	(72,098)	-	(72,098)	(27,714)	(99,812)
Share of comprehensive loss from associates	-	-	-	-	(3,514)	-	(3,514)	-	(3,514)
Total comprehensive income/(loss) for the period	-	-	-	-	(75,612)	(46,101)	(121,713)	70,560	(51,153)
Distribution to non-controlling shareholders of the Group's subsidiaries	-	-	-	-	-	-	-	(209)	(209)
Allocation of net assets to non-controlling shareholders of the Group's subsidiaries	-	-	-	-	-	(168)	(168)	168	-
Business combinations	-	-	-	-	-	-	-	9,335	9,335
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	(40,917)	(40,917)	(63,663)	(104,580)
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	(77,380)	(77,380)	77,380	-
Balance at 30 September 2009	36,154	210,862	6,356	37,035	(198,554)	1,656,392	1,748,245	741,685	2,489,930
Balance at 1 January 2010	36,154	210,862	6,356	37,035	(168,051)	1,480,712	1,603,068	669,631	2,272,699
Profit for the period	-	-	-	-	-	994,174	994,174	94,635	1,088,809
Other comprehensive income/(loss)									
Change in cumulative currency translation reserve	-	-	-	-	(48,738)	-	(48,738)	(13,413)	(62,151)
Share of comprehensive income from associates	-	-	-	-	1,690	-	1,690	-	1,690
Total comprehensive income/(loss) for the period	-	-	-	-	(47,048)	994,174	947,126	81,222	1,028,348
Capital contributions from equity holders of the Company	-	-	-	85,806	-	-	85,806	-	85,806
Distribution to non-controlling interest of the Group's subsidiaries	-	-	-	-	-	-	-	(145,937)	(145,937)
Allocation of net assets to non-controlling interest of the Group's subsidiaries	-	-	-	-	-	(118,143)	(118,143)	118,143	-
Business combinations	-	-	-	-	-	-	-	1,445,651	1,445,651
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	15,894	15,894	(592,772)	(576,878)
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	82,182	82,182	(82,182)	-
Balance at 30 September 2010	36,154	210,862	6,356	122,841	(215,099)	2,454,819	2,615,933	1,493,756	4,109,689

The accompanying notes on pages 5 to 30 are an integral part of this consolidated condensed interim financial information.

1 General Information

HMS Hydraulic Machines & Systems Group plc (the "Company") was incorporated in Cyprus on 27 April 2010 and registered at 2-4 Archbishop Makarios III Avenue, 1065 Nicosia, Cyprus, under the name of Bishopstow Holdings plc, with a start share capital of EUR 26 thousand. In June 2010, the Company was acquired by a group of individuals, jointly controlling Open Joint Stock Company HMS Group ("HMS Group OJSC"), and renamed H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED. Since the date of incorporation and up to the legal acquisition of HMS Group, the Company did not have any activities.

The principal business activities of HMS Group OJSC and its subsidiaries (the "HMS Group") are the manufacture of a wide range of pumps and pumping units, manufacturing and repairing of modular equipment, including oil and gas equipment, engineering and construction services mainly for oil and gas companies. These products and services are sold both in the Russian Federation and abroad. HMS Group OJSC is incorporated and domiciled in the Russian Federation. The address of its registered office is Chayanova St. 7, 125047 Moscow. The Group's manufacturing facilities are primarily located in Orel, Vladimir, Tomsk and Tumen regions of the Russian Federation, Sumy in Ukraine and Minsk in Belorussia.

The parent company of HMS Group OJSC is HMS-Holding LLC which till September 2010 was jointly controlled by Hydroindustry LLC and Hydromashinvest LLC. In accordance with the charter of HMS-Holding LLC, Hydroindustry LLC had the right to appoint the executive body of HMS-Holding LLC and its subsidiaries (including the Company) and Hydromashinvest LLC had the right to appoint the checkup committee of HMS-Holding LLC and its subsidiaries (including HMS Group OJSC).

In September 2010, the shareholders of Hydroindustry LLC, Hydromashinvest LLC and other entities owning shares of HMS-Holding LLC and of HMS Group OJSC signed a restructuring agreement. Under this agreement, the shares of those shareholders in the entities, holding shares in HMS-Holding LLC and direct shares in HMS Group OJSC, were contributed into the share capital of the Company in exchange for newly issued shares (Note 21), so that their shares in this new parent company reflect their respective effective shares in HMS-Holding LLC and in HMS Group OJSC before the restructuring. The shareholders' rights in respect of the Group's governance and control were contractually retained during the restructuring period. Due to the contractual agreement, the Company considers that it controls 100% of HMS Group OJSC at 30 September 2010 despite the fact that the legal transfer of certain shares (Note 21) occurred soon after the period end.

On 3 January 2011, the Company was renamed HMS Hydraulic Machines & Systems Group plc.

The Group's financial results for any individual quarter are not necessarily indicative of results to be expected for the full year. Interim period revenues and earnings are typically sensitive to market conditions and cyclical variations in capital expenditures spending by customers.

2 Basis of Preparation

This consolidated condensed interim financial information for the nine months ended 30 September 2010 has been prepared in accordance with IAS 34, *Interim financial reporting*, as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements of HMS Group OJSC for the year ended 31 December 2009 which have been prepared in accordance with International Financial Reporting Standards (IFRS).

As due to the restructuring procedures, described in Note 1, parent company of HMS Group has changed from HMS Group OJSC to HMS Hydraulic Machines & Systems Group plc, this condensed consolidated interim financial information of the Company is presented as if the Company existed at 1 January 2009 and through 2009.

3 Accounting Policies and Critical Accounting Estimates and Judgments

Accounting policies. The accounting policies applied are consistent with those of the annual consolidated financial statements of HMS Group OJSC for the year ended 31 December 2009, as described in those annual consolidated financial statements, except as described in Note 4 and in paragraph *Income tax and unified social tax* below.

Current and non-current assets and liabilities – the classification of an asset or liability as a current or non-current asset or liability in general depends on whether the item is related to serial production or subject to long-term construction contracts. In case of serial production, an asset or liability is classified as a non-current asset or liability when the item is realised or settled respectively after twelve months after the reporting date, and as current asset or liability when the item is realised or settled respectively within twelve months after the reporting date. In case of construction contracts, an asset or liability is classified as non-current when the item is realised or settled respectively beyond the Group's normal operating cycle; and as a current asset or liability when the item is realised or settled in the Group's normal operating cycle. Accordingly, there are amounts due to/due from customers under construction contracts, inventories, advances to suppliers and subcontractors, which may not be realised within twelve months after the reporting date, that have been classified as current.

Income tax and unified social tax – income tax and unified social tax in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings of the Group and employees, respectively.

Critical accounting estimates and judgments. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next reporting period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

(a) Agreements for construction and delivery of pumping units for Purpe-Samotlor and Eastern Siberia Pacific Ocean oil pipelines

During the nine months ended 30 September 2010, the Group entered into a number of agreements for construction and delivery of oil-trunk pumping units and spare parts for the oil pipelines Purpe-Samotlor and Eastern Siberia Pacific Ocean, which are constructed to provide export of crude oil from Russia to the Asian Pacific markets, including Japan, China and Korea. Pumping units, which will be combined in pumping stations, constructed under these agreements, represent complex highly customised equipment consisting of unique components and parts. Under these agreements, the Group will also perform supervision of pumping units installation and pumping stations start-up process. Total budgeted revenue for these contracts at 30 September 2010 exceeds RR 12 billion. The contracts are expected to be executed during 2010-2013.

The Group applied percentage of completion method to the accounting for these contracts. Revenue for these contracts is recognised as the production and construction work progresses. In determining the stage of completion, the Group also considers work performed by subcontractors, involved by the Group into these projects.

Method of accounting used for these contracts places considerable importance on accurate estimates at completion as well as on the extent of progress towards completion. For the determination of the progress of the respective contract significant estimates include total contract costs, remaining cost to completion, contract risks and other judgments. Management of the respective operating divisions continually reviews all estimates involved in such construction contracts and adjusts them as necessary.

In accordance with Russian Civil Code and the terms of the respective agreements, in certain circumstances and where supply terms are not adhered to, the Group may be subject to penalties or rejection by the customer to accept the equipment. Management assesses such risk as remote and does not expect such conditions to result in a loss to the Group.

Provisions for warranty corresponding to sale of pumping units and spare parts are recorded to reflect the underlying risk to the Group in respect of guarantees given when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimates can be made of the amount of the obligation.

For the nine months ended 30 September 2010, the Group recognised revenue in respect of these contracts of RR 2,352,800. This amount is included as part of revenue from construction contracts (Note 23). At 30 September 2010, payables due to customers (Note 18) include the amount of RR 6,689,248, representing net amount of advances received from customers of RR 9,042,048 (excluding VAT) and recognised revenue of RR 2,352,800, and advances paid to suppliers and subcontractors (Note 13) include the amount of RR 3,199,836 (including VAT), related to these contracts.

In accordance with internal management reports, which form the basis for the Group's segment reporting, these contracts relate to Industrial pumps segment.

3 Accounting Policies and Critical Accounting Estimates and Judgments (continued)

(b) Estimated impairment of property, plant and equipment and goodwill

At 30 September 2010, the Group performed an impairment test of property, plant and equipment and goodwill, recognised on acquisitions. The recoverable amount of each cash-generating unit (CGU) was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering 5 years. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs. As a result of this test, no impairment of property, plant and equipment or goodwill was identified.

4 Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation 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 should 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 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have any impact on the Group's consolidated condensed interim financial information.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires 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 previous standard required 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 has to be measured at its fair value. The revised IAS 27 has been applied by the Group. As a result of this application, there is no impact on prior periods in this consolidated condensed interim financial information.

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 allows 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 has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are 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 revised IFRS 3 has been applied by the Group prospectively and therefore there is no impact on prior periods in this consolidated condensed interim financial information.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (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. These amendments did not have any material effect on the Group's consolidated condensed interim financial information.

4 Adoption of New and Revised Standards and Interpretations (continued)

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). 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 did not have any impact on the Group's consolidated condensed interim financial information as the Group does not apply hedge accounting.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated condensed interim financial information.

Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time adoption of IFRS (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 did not have any impact on the Group's consolidated condensed interim financial information.

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 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 for the year 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.

In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards*, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The Group concluded that the amendments did not have any material effect on its consolidated condensed interim financial information.

5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 and which the Group has not early adopted.

(i) Adopted by the European Union

Classification of Rights Issues – Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group concluded that this amendment does not have any effect on its consolidated financial statements.

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 amendment on its consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. 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 IFRIC is not expected to have an impact on the Group's consolidated financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendment to have any material effect on its consolidated financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group concluded that this amendment does not have any effect on its consolidated financial statements.

(ii) Not adopted by the European Union

IFRS 9, Financial Instruments Part 1: 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. 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.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

5 New Accounting Pronouncements (continued)

(ii) Not adopted by the European Union (continued)

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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

6 Property, Plant and Equipment

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

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost at 1 January 2009	125,158	2,263,606	1,708,552	162,978	167,508	260,847	4,688,649
Accumulated depreciation	-	(153,191)	(462,575)	(70,206)	(74,304)	-	(760,276)
Carrying amount at 1 January 2009	125,158	2,110,415	1,245,977	92,772	93,204	260,847	3,928,373
Acquisitions through business combinations (Note 9)	10,746	90,274	25,886	1,174	2,966	-	131,046
Additions	5,563	40,095	56,349	4,622	27,799	92,351	226,779
Transfers	-	85,204	36,697	-	1,843	(123,744)	-
Disposals	(5,098)	(462)	(1,695)	(158)	(1,499)	(28,698)	(37,610)
Impairment charge	-	(1,889)	(6,903)	-	(1,217)	(1,670)	(11,679)
Depreciation for the period	-	(52,595)	(147,780)	(19,133)	(22,239)	-	(241,747)
Translation to presentation currency	(2,219)	(27,004)	(17,952)	(723)	(1,315)	(2,115)	(51,328)
Carrying amount at 30 September 2009	134,150	2,244,038	1,190,579	78,554	99,542	196,971	3,943,834
Cost at 30 September 2009	134,150	2,449,461	1,800,471	166,330	195,501	198,642	4,944,555
Accumulated depreciation and impairment	-	(205,423)	(609,892)	(87,776)	(95,959)	(1,671)	(1,000,721)
Cost at 1 January 2010	137,730	2,510,359	1,866,313	167,577	202,145	145,831	5,029,955
Accumulated depreciation	-	(227,807)	(653,444)	(90,850)	(102,120)	(927)	(1,075,148)
Carrying amount at 1 January 2010	137,730	2,282,552	1,212,869	76,727	100,025	144,904	3,954,807
Acquisitions through business combinations (Note 9)	8,293	1,302,442	102,088	10,548	106,981	16,801	1,547,153
Additions	8,127	12,970	99,588	21,211	40,236	403,439	585,571
Transfers	-	51,821	30,936	-	1,143	(83,900)	-
Assets of disposal group classified as held for sale	-	(94,562)	(1,533)	(160)	-	-	(96,255)
Disposals	-	(4,303)	(4,679)	(936)	(4,162)	(5,458)	(19,538)
Depreciation for the period	-	(69,551)	(128,232)	(17,457)	(33,751)	-	(248,991)
Translation to presentation currency	524	(2,079)	339	(2,031)	(3,218)	(1,863)	(8,328)
Carrying amount at 30 September 2010	154,674	3,479,290	1,311,376	87,902	207,254	473,923	5,714,419
Cost at 30 September 2010	154,674	3,768,265	2,076,511	193,196	334,454	473,923	7,001,023
Accumulated depreciation and impairment	-	(288,975)	(765,135)	(105,294)	(127,200)	-	(1,286,604)

At 30 September 2010, the Group's property, plant and equipment for a total of RR 865,607 had been pledged as security for certain borrowings (31 December 2009: RR 1,009,149) (Note 15).

Construction-in-progress includes advances for capital expenditures for a total of RR 164,356 at 30 September 2010 (31 December 2009: RR 49,843).

At 30 September 2010, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 100,994 (31 December 2009: RR 33,168).

Due to impairment indicators occurred at the end of 2009 and during 2010 the impairment test was performed for certain cash-generating units (CGUs).

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

6 Property, Plant and Equipment (continued)

Based on the results of impairment tests the Group did not recognise any impairment loss at 30 September 2010 and for the nine month period then ended (at 30 September 2009 and for the nine month period then ended: RR 11,679 for property, plant and equipment and RR 2,641 for other intangible assets related to Electrodivigatel OJSC).

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

	30 September 2010	30 September 2009
Growth rate beyond five years	3%	3%
Pre-tax discount rate	From 12% to 18%	From 16% to 22%

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

7 Other Intangible Assets

	Patents	Licensed technology	Acquired software license	Customer relationships	Trademarks	Websites	Total
Cost at 1 January 2009	12,576	13,097	18,429	7,595	14,528	70	66,295
Accumulated amortisation and impairment	(550)	(4,610)	(4,661)	(2,586)	(434)	(15)	(12,856)
Carrying amount at 1 January 2009	12,026	8,487	13,768	5,009	14,094	55	53,439
Acquisitions through business combinations (Note 9)	-	2,390	-	-	-	-	2,390
Additions	19	2,794	8,230	-	3,935	1,134	16,112
Disposals	(5)	(1,265)	(635)	(349)	-	-	(2,254)
Impairment charge	-	(377)	(2,264)	-	-	-	(2,641)
Amortisation for the period	(2,422)	(3,103)	(4,542)	(3,862)	(2,233)	(40)	(16,202)
Translation to presentation currency	(1,325)	(18)	(17)	456	(812)	(4)	(1,720)
Carrying amount at 30 September 2009	8,293	8,908	14,540	1,254	14,984	1,145	49,124
Cost at 30 September 2009	10,842	14,936	25,762	4,966	17,361	1,198	75,065
Accumulated amortisation and impairment	(2,549)	(6,028)	(11,222)	(3,712)	(2,377)	(53)	(25,941)
Cost at 1 January 2010	11,015	15,955	26,767	4,893	18,108	1,201	77,939
Accumulated amortisation and impairment	(3,164)	(6,886)	(13,172)	(4,281)	(3,238)	(89)	(30,830)
Carrying amount at 1 January 2010	7,851	9,069	13,595	612	14,870	1,112	47,109
Acquisitions through business combinations (Note 9)	13	102	5,014	-	33,826	-	38,955
Additions	121	5,824	15,354	-	-	-	21,299
Disposals	(112)	(245)	(1,239)	-	-	-	(1,596)
Amortisation for the period	(1,446)	(4,067)	(7,894)	(612)	(4,258)	(105)	(18,382)
Translation to presentation currency	(208)	(11)	(93)	-	192	-	(120)
Carrying amount at 30 September 2010	6,219	10,672	24,737	-	44,630	1,007	87,265
Cost at 30 September 2010	10,316	19,487	41,002	-	52,194	1,201	124,200
Accumulated amortisation and impairment	(4,097)	(8,815)	(16,265)	-	(7,564)	(194)	(36,935)

8 Goodwill

Movements in goodwill on acquisition of the subsidiaries:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Gross book value at 1 January	423,990	306,682
Accumulated impairment at 1 January	(116,998)	-
Carrying amount at 1 January	306,992	306,682
Acquisitions of subsidiaries (Note 9)	1,571,519	117,308
Disposals of subsidiaries (Note 9)	(4,519)	-
Impairment of goodwill	-	(116,998)
Carrying amount at 30 September	1,873,992	306,992
Gross book value	1,990,990	423,990
Accumulated impairment losses	(116,998)	(116,998)
Carrying amount at 30 September	1,873,992	306,992

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

	30 September 2010	31 December 2009 and 30 September 2009
Gyprotyumenneftegaz OJSC	1,571,519	-
EPF "SIBNA" Inc. JSC	117,308	117,308
Trest Sibkomplektmontazhnaladka OJSC	95,691	95,691
Institute Rostovskiy Vodokanalproekt OJSC	72,717	72,717
Tomskgazstroy OJSC	16,757	16,757
Gydromash-Industria LLC	-	4,519
Total carrying amount of goodwill	1,873,992	306,992

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

Based on the results of these calculations the Group concluded that no impairment charge was required at 30 September 2010.

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

	30 September 2010	30 September 2009
Growth rate beyond five years	3%	3%
Pre-tax discount rate	From 12% to 18%	From 16% to 22%

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

As a result of impairment tests performed at 30 September 2009 an impairment loss in relation to Trest Sibkomplektmontazhnaladka OJSC (RR 94,881) and Rostovskiy Vodokanalproekt OJSC (RR 22,117) was identified and recognised in consolidated condensed interim financial information of the Group for the nine months ended 30 September 2009.

9 Business Combinations

Acquisition of Giprotymenneftegaz OJSC

In June 2010, the Group acquired 51% of ordinary shares in Gyprotyumenneftegaz OJSC ("GTNG") for RR 2,467,330 paid in cash. Based on the acquired entity's share capital structure, 51% of ordinary shares represented the effective interest of 38.26% of total equity of GTNG.

The acquired entity's activity is rendering design and engineering services for oil and gas companies located mainly in Tyumen Region. GTNG is the leading design and engineering institute servicing the oil and gas industry in Russia. This acquisition significantly enhanced the Group's engineering, procurement and construction segment allowing the Group to extend the range of services provided to oil and gas industry.

The acquired company contributed revenue of RR 538,921 and profit after income tax of RR 10,909 to the Group for the period from the date of acquisition to 30 September 2010. Had the acquisition occurred on 1 January 2010, the revenue from the acquired business would have been RR 1,518,356 and profit after income tax would have been RR 76,002 for the nine months ended 30 September 2010.

This acquisition was accounted for using the acquisition method. Non-controlling interest was measured at its respective share in the acquired entity's identifiable net assets at the date of acquisition.

The Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. Such assessments may change when identification and fair value measurement of identifiable intangible assets are complete. The provisional purchase price allocation for the acquisition is as follows:

	IFRS carrying amounts immediately before the business combination	Provisional value at the date of acquisition
Property, plant and equipment	1,398,104	1,547,154
Intangible assets	4,890	38,955
Other long-term receivables from the Group	402,888	402,888
Inventories	28,897	28,897
Trade and other receivables	756,309	756,309
Advance payment for investment to the Group's subsidiary	428,420	428,420
Cash and cash equivalents	127,873	127,873
Deferred tax liability	(193,359)	(229,982)
Pension liability – non-current portion	(70,820)	(109,745)
Trade and other payables	(561,199)	(561,199)
Pension liability – current portion	(10,467)	(10,467)
Other taxes payable	(77,641)	(77,641)
Carrying value of net assets/ Fair value of net assets	2,233,895	2,341,462
Less: Non-controlling interest		(1,445,651)
Fair value of acquired interest in net assets		895,811
Goodwill		1,571,519
Total purchase consideration		2,467,330
Less: cash and cash equivalents of subsidiaries acquired		(127,873)
Outflow of cash and cash equivalents on acquisition		2,339,457

The goodwill is primarily attributable to the profitability of the acquired business, as well as to synergy expected to be realised in relation to the Group's servicing of oil and gas industry.

9 Business Combinations (continued)

Acquisition of EPF "SIBNA"

In June 2009, the Group acquired control over EPF "SIBNA" Inc. OJSC by increasing its share from 29.9% to 76.7% for purchase consideration of RR 247,896, paid in cash. The acquired entity's activity is the sales and repair oil and gas equipment, design of instrumentation technology. The acquired company contributed revenue of RR 50,976 and gain of RR 12,784 to the Group for the period from the date of acquisition to 30 September 2009. Had the acquisition occurred on 1 January 2009, the revenue from the acquired business would have been RR 118,817, and profit after income tax would have been RR 10,249 for the nine months ended 30 September 2009.

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

	Fair value
Property, plant and equipment	131,046
Intangible assets	2,390
Other long-term receivables	1,186
Inventories	62,415
Trade and other receivables	30,785
Cash and cash equivalents	8,090
Deferred tax liability	(16,445)
Pension liability	(2,724)
Trade and other payable	(9,946)
Pension liability	(494)
Other taxes payable	(3,937)
Fair value of net assets	202,366
Less: Minority interest	(9,335)
Less: Fair value of the interest in associate previously held	(62,443)
Fair value of acquired interest in net assets	130,588
Goodwill	117,308
Total purchase consideration	247,896
Less: cash and cash equivalents of subsidiaries acquired	(8,090)
Outflow of cash and cash equivalents on acquisition	239,806

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

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

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

Disposal of controlling interest in Hydromash-Industria LLC

In June 2010, the Group sold its 100% share in Hydromash-Industria LLC for a cash consideration of RR 7,475. Loss on disposal of this investment, amounting to RR 4,360, was included in the consolidated condensed interim statement of comprehensive income as other operating expenses.

Acquisition/disposal of non-controlling interest in subsidiaries

In February 2010, the Group acquired an additional 2.40% interest in HMS Pumps OJSC (formerly Livhydomash OJSC) for RR 7,945 paid in cash. As a result of this transaction, the Group increased its ownership interest in HMS Pumps OJSC from 95.83% to 98.23% decreasing the non-controlling interest by RR 16,546.

In March 2010, the Group acquired an additional 3.36% interest in Tomskgazstroy OJSC for RR 32,164, paid in cash. As a result of this transaction, the Group increased its ownership interest in Tomskgazstroy OJSC from 77.42% to 80.78% decreasing the non-controlling interest by RR 21,344.

9 Business Combinations (continued)

Acquisition/disposal of non-controlling interest in subsidiaries (continued)

On 25 May 2010, GTNG entered into the share purchase agreement with OJSC Trest Sibkomplektmontazhnaladka ("SKMN"), a subsidiary of the Group, to acquire an additional share issue of SKMN for a cash consideration of RR 428,420. As a result of the purchase of the additional share issue GTNG obtained 32.71% interest in SKMN in July 2010. As a result, the Group's effective share in SKMN decreased from 100.00% to 79.63% and non-controlling interest decreased by RR 94,033. Also, as a result of this transaction, the Group's interest in HYDROMASHINPROM CJSC, SKMN's subsidiary, decreased from 71.34% to 61.68% increasing the non-controlling interest by RR 5,298, the Group's interest in Sibservice LLC, SKMN's subsidiary, decreased from 71.34% to 61.68% increasing the non-controlling interest by RR 2,600, the Group's interest in Institute Rostovskiy Vodokanalproekt OJSC, SKMN's subsidiary, decreased from 72.03% to 67.43% increasing the non-controlling interest by RR 9,134.

In August 2010, the Group acquired an additional 1.61% interest in HMS Neftemash OJSC (formerly Neftemash OJSC) for RR 119,645, paid in cash. As a result of this transaction, the Group increased its ownership interest in HMS Neftemash OJSC from 80.44% to 82.05% decreasing the non-controlling interest by RR 119,187. As a result of the acquisition of an additional interest in HMS Neftemash OJSC, the Group increased its effective ownership interest in Nizhneartovskremservis CJSC from 80.44% to 82.05% decreasing the non-controlling interest by RR 4,721, the Group increased its effective ownership interest in EPF "SIBNA" Inc. OJSC from 76.73% to 78.26% decreasing the non-controlling interest by RR 3,348 and in Livnynasos OJSC from 80.36% to 82.04% decreasing the non-controlling interest by RR 9,525.

In September 2010, the Group acquired an additional 7.62% interest in GTNG for RR 417,982, paid in cash. As a result of this transaction, the Group increased its ownership interest in GTNG from 38.26% to 45.88% decreasing the non-controlling interest by RR 410,971. As a result of this transaction, the Group increased its ownership interest in SKMN from 79.63% to 82.14% decreasing the non-controlling interest by RR 9,483.

For the nine months ended 30 September 2010, other transactions with non-controlling interest resulted in the decrease of non-controlling interest by RR 2,828.

In January 2009, the Group acquired an additional 1.4% interest in SKMN for RR 1,900, paid in cash. As a result of this transaction, the Group increased its ownership interest in SKMN from 98.6% to 100% decreasing the non-controlling interest by RR 9,483.

During the nine months ended 30 September 2009, in a series of transactions the Group acquired an additional interest 4.36% in Tomskgazstroy OJSC for RR 40,077 paid in cash. As a result of these transactions, the Group increased its ownership interest in Tomskgazstroy OJSC from 62.01% to 66.37% decreasing the non-controlling interest by RR 17,216.

In February 2009, the Group acquired an additional 0.01% interest in Nizhneartovskremservice CJSC ("NRS") for RR 24 paid in cash. In June 2009, the Group transferred 19.84% interest in NRS from HYDROMASHSERVICE CJSC to Neftemash OJSC. As a result of these transactions, the Group decreased its ownership interest in NRS from 100% to 80.16% increasing the non-controlling interest by RR 55,029.

In March 2009, the Group acquired an additional 10.36% interest in Livnynasos OJSC for RR 62,086, paid in cash. As a result of this transaction, the Group increased its ownership interest in Livnynasos OJSC from 70.00% to 80.36% decreasing the non-controlling interest by RR 39,885.

In August 2009, the Group acquired an additional 0.31% interest in Electrodivigatel OJSC for RR 26, paid in cash. As a result of this transaction, the Group increased its ownership interest in Electrodivigatel OJSC from 56.58% to 56.89% decreasing the non-controlling interest by RR 11.

In September 2009, the Group transferred 99.53% of its interest in SPA Gydromash CJSC from HYDROMASHSERVICE CJSC to Nasosenergomash OJSC. As a result of this transaction, the Group decreased its ownership interest in SPA Gydromash CJSC from 99.53% to 82.89% increasing the non-controlling interest by RR 22,351.

In September 2009, the Group acquired an additional 0.28% interest in Nasosenergomash OJSC for RR 467, paid in cash. As a result of this transaction, the Group increased its ownership interest in Nasosenergomash OJSC from 83.00% to 83.28% decreasing the non-controlling interest by RR 2,514.

During the nine months ended 30 September 2009, the Group transferred interest in Hydraulic Machines and Systems Management LLC between companies of the Group. As a result of these transactions, the Group increased its ownership interest in Hydraulic Machines and Systems Management LLC from 98.1% to 98.9% and decreased the non-controlling interest by RR 1,324.

10 Investments in Associates

In June 2009, the Group increased its nominal interest in Dimitrovgradkhimmash OJSC by 10% for RR 122,756 paid in cash. The Group's share within associated net assets at acquisition date was RR 76,820.

In February 2009, one of the Group's subsidiaries – Institute Rostovskiy Vodokanalproekt OJSC disposed of its 35.29% share in Vodokanalproektirovanie LLC through the return of capital contribution previously made by property, plant and equipment.

Investments in associates at 30 September 2010 include goodwill of RR 113,195 (30 September 2009: RR 113,195).

The Group's investments in associates are as follows:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Carrying amount at 1 January	507,293	449,848
Cost of acquisition of associates	-	122,756
Cost of disposal of associates	-	(11,582)
Reclassification due to acquisition of controlling interest	-	(62,443)
Dividends	(16,801)	(9,385)
Share of after tax results of associates	9,271	22,920
Translation to presentation currency	1,690	(3,514)
Carrying amount at 30 September	501,453	508,600

11 Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

	30 September 2010	31 December 2009
Cash on hand	923	723
RR denominated balances with banks	528,782	268,532
Foreign currency denominated balances with banks	59,164	107,088
RR denominated bank deposits	1,297,599	381,044
Other cash equivalents	12,714	740
Total cash and cash equivalents	1,899,182	758,127

At 30 September 2010, the closing balance of short-term bank deposits comprised short-term bank deposits in four banks with a 4.5-19.5% interest rate (2009: 1.0-13.0% – six banks).

Restricted cash

Restricted cash of RR 3,768 (31 December 2009: RR 905) represents minimum balances for settlement and corporate plastic cards accounts.

12 Inventories

	30 September 2010	31 December 2009
Raw materials and supplies	1,151,186	951,228
Inventory for implementation of construction contracts	634,711	1,072,281
Work in progress	810,921	414,879
Finished goods and goods for resale	596,113	838,670
Other inventories	182,259	127,087
Provision for obsolete inventories	(115,759)	(224,501)
Total inventories	3,259,431	3,179,644

At 30 September 2010, inventories of RR 466,776 were pledged as collateral for certain borrowings (31 December 2009: RR 527,890) (Note 15). The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 24.

13 Trade and Other Receivables and Other Financial Assets

	30 September 2010	31 December 2009
Trade receivables	2,736,696	1,507,542
Less: provision for impairment of trade receivables	(96,154)	(111,184)
Short-term loans issued	7,243	4,727
Bank promissory notes receivable	5,626	3,533
Government bonds	54,447	-
Bank deposit	556,515	24,518
Promissory notes receivable	-	2,706
Other receivables	76,175	80,105
Less: provision for impairment of other receivables	(29,974)	(23,189)
Receivable due from customers for construction work (Note 17)	876,663	154,388
Less: provision for receivable due from customers for construction work	(95,560)	(95,560)
Financial assets within trade and other receivables – net	4,091,677	1,547,586
Advances to suppliers and subcontractors	4,730,954	714,064
Less: provision for impairment of advances to suppliers	(44,328)	(52,069)
VAT receivable	2,186,088	585,890
Provision for VAT receivable	(24,002)	(32,802)
Other taxes receivable	13,363	15,379
Non-financial assets within other receivables – net	6,862,075	1,230,462
Total trade and other receivables	10,953,752	2,778,048

Included in VAT receivable at 30 September 2010 is VAT related to advances received from customers in amount of RR 1,824,673 (31 December 2009: RR 63,866).

14 Non-current Assets Held for Sale

At 30 September 2010, the assets classified as held for sale in the amount of RR 96,255 represented certain buildings, plant and equipment and transport which the Group intends to dispose of in the next twelve months in accordance with the approved plan of sale. Initially, this property was classified as part of property, plant and equipment. No loss was recognised on reclassification of this property as held for sale assets.

15 Borrowings

	Interest rate	Denominated in	Maturity	30 September 2010	31 December 2009
Long-term loans:					
Long-term loan 1	10.5%	RR	August 2012	800,000	800,000
Long-term loan 2	10.5%	RR	December 2012	500,000	500,000
Long-term loan 3	11.3%	RR	January 2014-		
Long-term loan 4	8.75%	RR	May 2015	1,454,776	-
Long-term loan 5	10.5%	RR	February 2012	102,432	873,113
Long-term loan 6	10.5%	RR	April 2014	997,588	995,667
Long-term loan 7	10.5%	RR	May 2014	110,000	110,000
Long-term loan 8	3.5%	RR	December 2011	100,000	100,000
Long-term loan 9	5.35%	RR	December 2011	279,038	17,986
Long-term loan 10	0%	UAH	December 2011	2,681	-
Long-term loan 11	0%	RR	December 2015	-	14,005
Long-term loan 12	0%	RR	April 2016	-	10,560
Long-term loan 13	0%	RR	May 2016	-	50
			December 2016	-	8,094
				4,346,515	3,429,475
Less: current portion of long-term borrowings				(211,634)	-
Total long-term borrowings				4,134,881	3,429,475

15 Borrowings (continued)

	Interest rate	Denomi- nated in	30 September 2010	31 December 2009
Short-term unsecured loans:				
Unsecured bank loan 1	15%	RR	-	1,050,000
Unsecured bank loan 2	MosPrime+ 4.7%	RR	-	62,500
Unsecured bank loan 3	8.75-16.5%	RR	-	388,121
Unsecured bank loan 4	10%	RR	2,160	-
Unsecured bank loan 6	LIBOR+8.75%	USD	-	238,929
Unsecured loan 5	15.5%	RR	-	33,000
Unsecured loan 7	15.5%	RR	-	1,131
Unsecured loan 8	15.5%	RR	28	-
			2,188	1,773,681
Short-term secured loans:				
Secured bank loan 1	16%	RR	1,924	3,230
Secured bank loan 2	16%	RR	-	40,988
Secured bank loan 3	10.75%	USD	-	30,299
Secured bank loan 4	23%	UAH	-	11,210
Secured bank loan 5	10.5%	RR	120,000	-
Secured bank loan 6	23%	RR	-	10,958
Secured bank loan 7	8.75-16.5%	RR	599,849	-
Secured bank loan 9	23%	BYR	3,435	2,202
			725,208	98,887
Current portion of long-term borrowings			211,634	
Interest on short-term borrowings			2,692	7,346
Short-term borrowings			941,722	1,879,914

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

	30 September 2010	31 December 2009
RR	5,070,434	5,025,588
USD	-	269,895
BYR	3,487	2,272
UAH	2,682	11,634
Total borrowings	5,076,603	5,309,389

At 30 September 2010, the Group pledged property, plant and equipment and inventories in total amount of RR 865,607 and 466,776 (2009: RR 1,009,149 and RR 527,890), respectively. At 30 September 2010, the Group pledged 25% plus one share of HMS Neftemash OJSC as a security for certain borrowings. Pledged value of this interest was RR 1,376,302. The Group also pledged its 51% of ordinary shares in GTNG as a security for the Long-term loan 3, obtained for the acquisition of GTNG.

During the nine months ended 30 September 2010, interest rates on long-term borrowings were revised and decreased for 4-7% per annum on the basis of contractual provisions of loan agreements which allow periodic revisions of interest rates.

At 30 September 2010 and 31 December 2009, the fair value of long-term and short-term borrowings approximated their carrying amount.

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

16 Retirement Benefit Obligations

The following amounts were recognised in the consolidated condensed interim statement of comprehensive income:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Current service cost	8,957	9,272
Interest cost	13,243	12,650
Past service cost	1,277	(347)
Curtailment of a plan	(46,988)	-
Net actuarial loss/(gain) recognised during the period	69,341	(34,910)
Net periodic benefit expense/(income)	45,830	(13,335)

16 Retirement Benefit Obligation (continued)

The amounts recognised in the consolidated condensed interim statement of financial position were as follows:

	30 September 2010	31 December 2009
Present value of defined benefit obligations	302,816	145,319
Unrecognised past service cost	265	1,010
Liability in the statement of financial position	303,081	146,329

17 Construction Contracts

During the nine months ended 30 September 2010, the construction contracts revenue was recognised in relation to stage of completion for each contract. The stage of completion of a contract was determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The following figures represented below related to Group subsidiaries performed activities under construction contracts:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Construction contracts revenue	7,115,132	1,813,336
Contract cost expensed	(6,017,584)	(1,664,551)
Gross margin	1,097,548	148,785

	30 September 2010	31 December 2009
Advances from customers, related to construction contracts	279,351	140,738
Retentions	91,422	44,471

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

	30 September 2010	31 December 2009
Aggregate amount of contract cost incurred	7,520,318	2,569,400
Aggregate amount of recognised profits	625,216	134,279
Aggregate amount of recognised losses	(31,007)	(1,097)
Less: Progress billings	(7,237,864)	(2,548,194)
Gross amount due from customers for contract work	876,663	154,388

	30 September 2010	31 December 2009
Aggregate amount of contract cost incurred	4,135,875	1,206,334
Aggregate amount of recognised profits	1,270,900	298,218
Aggregate amount of recognised losses	(11,149)	(2,633)
Less: Progress billings	(12,634,611)	(1,665,390)
Gross amount due to customers for contract work	(7,238,985)	(163,471)

18 Trade and Other Payables

	30 September 2010	31 December 2009
Trade payables	2,133,860	1,264,490
Other payables	116,159	58,110
Financial trade and other payables	2,250,019	1,322,600
Advances from customers	1,565,489	1,561,765
VAT on advances from customers included in receivables due from/payables due to customers for construction work	1,627,569	-
Payables due to customers for construction work (Note 17)	7,238,985	163,471
Wages and salaries payable	224,067	207,697
Other non-financial payables	10,656,110	1,932,933
Total trade and other payable	12,906,129	3,255,533

19 Other Taxes Payable

	30 September 2010	31 December 2009
VAT	1,301,109	207,737
Unified social tax	54,681	42,549
Personal income tax	32,541	24,302
Property tax	10,952	11,514
Land tax	2,763	2,039
Transport tax	1,476	2,595
Water tax	58	72
Other taxes	337	2,491
Total other taxes payable	1,403,917	293,299

Included in VAT payable at 30 September 2010 is VAT related to advances paid to suppliers and subcontractors in amount of RR 589,492 (31 December 2009: RR 130,303).

20 Provisions for Liabilities and Charges

	Short-term part of warranty provision	Long-term part of warranty provision	Provision for legal claims	Unused vacation allowance
At 1 January 2009	27,111	-	21,919	150,323
Additional provisions	5,976	5,458	17,265	-
Unused amounts reversed	-	-	(3,587)	(37,751)
Business combinations	60	-	179	-
At 30 September 2009	33,147	5,458	35,776	112,572
At 1 January 2010	33,771	11,550	35,753	140,236
Additional provisions	3,099	18,020	4,727	-
Unused amounts reversed	-	-	-	(17,276)
Business combinations	-	-	-	23,864
At 30 September 2010	36,870	29,570	40,480	146,824

21 Share Capital, Other Equity Items and Earnings per Share

Share capital and share premium. The Company was incorporated with a share capital of EUR 26 thousand (RR 1,010 at the incorporation date), representing 26,000 authorised and outstanding fully paid ordinary shares with par value of EUR 1, issued on 27 April 2010 with no premium (Note 1). On 7 June 2010, those shares were split into 26,000,000 shares with par value of EUR 0.01.

Further, in accordance with the restructuring plan, agreed and entered into by the shareholders of HMS Group (Note 1), the Company issued additionally 100,000,000 shares. Those shares were distributed between the Company's shareholders pro rata to their existing interests at the date of the restructuring agreement. These additionally issued shares were paid by the shareholders with their shares in HMS Group OJSC, which they owned through certain legal entities, registered in the Russian Federation and organised in a form of limited liability companies.

Below are the details of share issues:

Date of transaction	Quantity of shares issued	Par value, EUR	Share capital, RR thousand	Share premium, RR thousand
27 April 2010	26,000	1.00	1,010	-
6 June 2010 – share split	2,600,000	0.01	1,010	-
30 September 2010	84,994,600	0.01	35,144	210,862
19 October 2010	15,005,400	0.01	6,356	-
Total	102,600,000		42,510	210,862

While the transfer of shares in HMS Group OJSC under the second additional issue occurred on 19 October 2010, this additional share issue was legally finalised with the Cyprus authorities on 8 December 2010. This issue is presented in the consolidated condensed interim statement of financial position at 30 September 2010 as share capital to be issued.

21 Share Capital, Other Equity Items and Earnings per Share (continued)

Dividends. During the nine months ended 30 September 2010, dividends were accrued only to the holders of preference shares in the subsidiaries in amount of RR 145,937 (nine months ended 30 September 2009: RR 209), but no dividends were paid to the shareholders or non-controlling interest holders of common shares. As a result, allocations of net assets to non-controlling interest holders of preference shares and common shares were reflected in this consolidated condensed interim financial information.

Earnings per share. The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period. The weighted average number of ordinary shares in issue during the nine months ended 30 September 2010 and 2009 was calculated as if the Company existed at 1 January 2009 and through 2009 with 102,600,000 issued ordinary shares.

Profit/(loss) for the nine months ended 30 September 2010 and 2009 from continuing operations attributable to ordinary shareholders is calculated as follows:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Profit/(loss) for the period attributable to ordinary shareholders	994,174	(46,100)
Weighted average number of ordinary shares in issue (thousands)	102,600	102,600
Basic and diluted earnings per ordinary share (expressed in RR per share)	9.690	(0.449)

22 Income Taxes

Income tax expense for the nine months ended 30 September 2010 and 2009 included:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Current tax	186,462	252,666
Deferred tax	142,662	(114,712)
Total income tax expense	329,124	137,954

Most companies of the Group were subject to tax rate of 20% on taxable profits in the Russian Federation for the nine months period ended 30 September 2010.

23 Revenue

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Revenue from construction contracts	7,115,132	1,813,336
Sales of pumps and spare parts	4,967,317	4,190,669
Sales of modular equipment	3,093,235	2,884,546
Sales of repair services for equipment	450,510	496,394
Sales of electric motors	157,356	73,010
Sales of products, work and services of auxiliary units	51,616	31,934
Sales of other services and goods	322,555	285,151
Total revenue	16,157,721	9,775,040

24 Cost of Sales

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Supplies and raw materials	7,860,122	3,345,113
Labour costs	1,817,281	1,362,903
Cost of goods sold	1,491,898	1,177,555
Construction and installation works of subcontractors	391,090	360,564
Depreciation and amortisation	193,961	199,740
Utilities	156,250	113,942
Defined benefits scheme expense/(income)	29,499	-
Warranty provision	22,376	11,434
Impairment of property, plant and equipment and intangible assets	-	14,320
Provision for obsolete inventories	(112,560)	93,887
Change in work in progress and finished goods	(185,116)	63,082
Other expenses	634,821	355,216
Total cost of sales	12,299,622	7,097,756

25 Distribution and Transportation Expenses

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Labour costs	158,611	152,592
Transport expenses	98,105	95,419
Agency services	25,630	2,508
Packaging expenses	22,963	17,376
Advertising	16,753	7,387
Insurance	12,582	11,772
Entertaining costs and business trip expenses	8,983	14,154
Depreciation and amortisation	6,645	8,935
Customs duties	6,034	9,492
Products certification	3,130	2,043
Capital assets repair and maintenance	3,084	2,381
Defined benefits scheme expense/(income)	2,577	-
Lease	719	8,565
Other expenses	32,565	34,930
Total distribution and transportation expenses	398,381	367,554

26 General and Administrative Expenses

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Labour costs	841,740	772,741
Depreciation and amortisation	66,293	49,274
Taxes and duties	85,665	50,949
Audit and consultancy services	80,188	94,933
Bank services	60,111	29,739
Stationary and office maintenance	38,294	34,874
Entertaining costs and business trip expenses	34,561	23,874
Property, plant and equipment repair and maintenance	26,216	20,181
Security	25,980	22,483
Telecommunications services	19,905	19,049
Insurance	18,984	12,846
Training and recruitment	8,677	6,210
Rent	6,531	14,750
Provision for VAT receivable	4,727	29,991
Defined benefits scheme expense/(income)	13,754	(13,335)
Provision for legal claims	(8,891)	13,678
Provision for impairment of accounts receivable	(35,527)	57,934
Other expenses	87,248	78,088
Total general and administrative expenses	1,374,456	1,318,259

27 Other Operating Expenses, Net

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Charity, social expenditures	39,283	35,417
Impairment of taxes receivable	13,275	-
Fines and late payment interest under contracts	11,021	3,677
Depreciation of social assets	473	2,024
(Gain)/loss on sales of inventories	(318)	14,894
(Gain)/loss on transactions with securities	(5,271)	274
Foreign exchange (gain)/loss, net	(8,295)	10,894
(Gain)/loss from disposal of property, plant and equipment and intangible assets	(15,704)	4,929
Investments impairment provision	-	354
Other expenses, net	19,550	18,052
Total other operating expenses, net	54,014	90,515

28 Finance Income

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Interest income	45,614	38,395
Foreign exchange income, net	-	3,169
Total finance income	45,614	41,564

29 Finance Costs

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Interest expenses	662,525	652,399
Finance lease expenses	2,831	5,916
Effect of discounting of financial instruments	2,178	-
Foreign exchange loss, net	666	-
Total finance costs	668,200	658,315

30 Balances and Transactions with Related Parties

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

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

The table below contains the disclosure by group of related parties with which the Company entered into significant transactions or has significant balances outstanding. Other category of related parties comprises individuals who are the ultimate owners of shares in the Company (Note 1), who are also key management of the Group.

Balances with related parties	30 September 2010	
	Associates	Other
Loans issued	-	1,210
Borrowings	-	28
Accounts receivable	14,195	843
Accounts payable	7,429	8,657

30 Balances and Transactions with Related Parties (continued)

Balances with related parties	31 December 2009	
	Associates	Other
Loans issued	-	-
Borrowings	-	31,154
Accounts receivable	6,637	-
Accounts payable	12,236	68,103

No provision was made for bad debts accounts receivable from related parties. Neither party issued guaranties to secure accounts receivable or payable.

Income /expenses on transactions with related parties	Nine months ended 30 September 2010	
	Associates	Other
Sales of goods and finished products	377	-
Sales of raw materials	183	-
Sales of services	94	-
Purchase of services	(4,286)	-
Purchase of goods	(33,850)	-
Purchase of raw materials	(5,962)	-
Finance lease expenses	(42)	-

Income /expenses on transactions with related parties	Nine months ended 30 September 2009	
	Associates	Other
Sales of goods and finished products	1,661	-
Sales of raw materials	380	-
Sales of services	-	-
Purchase of services	(24,893)	-
Purchase of goods	(29,951)	-
Purchase of raw materials	(23,923)	-
Finance lease expenses	(35)	-

For the nine months ended 30 September 2010, the Group did not receive any loans from related parties (for the nine months ended 30 September 2009: RR 8,138 with a weighted average interest rate of 14%). For the nine months ended 30 September 2010, the Group issued loans to related parties for a total of RR 400 with a weighted average interest rate of 15.5% (for the nine months ended 30 September 2009: RR 300 with a weighted average interest rate of 14%).

Key management compensation

Key management compensation amounted to RR 111,539 for the nine months ended 30 September 2010 (for the nine months ended 30 September 2009: RR 71,322) and included short-term benefits such as salaries and bonuses paid to management as set forth in labour contracts concluded annually.

For the nine months ended 30 September 2010, preference dividends of RR 133,680 were accrued and paid by the Company's subsidiaries to the holders of non-controlling interests who are ultimate shareholders of the Group and the members of key management (for the nine months ended 30 September 2009: RR 0).

31 Contingencies and Commitments

(i) Legal proceeding

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

31 Contingencies and Commitments (continued)

(ii) Tax legislation

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

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

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

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

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

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

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

In addition to the above transfer pricing matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks at 30 September 2010 of RR 1,975 (31 December 2009: RR 1,975). These exposures primarily relate to bonuses to employees and return of goods.

(iii) Environmental matters

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

31 Contingencies and Commitments (continued)

(iv) Insurance policies

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

(v) Contractual commitments

At 30 September 2010, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 100,994 (31 December 2009: RR 33,168) and for the purchase of other intangible assets from the Group's associate for RR 602,780 (31 December 2009: RR 0).

The Group holds short-term cancellable and non cancellable operating leases. The future commitments of the non cancellable leases are not material.

By 15 February 2011, the Group is due to pledge non-current assets with a pledge value RR 1,273,000, 43% of Tomskgazstroy OJSC shares, 49% of SKMN shares, 95.38% of EPF "SIBNA" Inc. OJSC shares, 100% of NRS shares, 40% of Dimitrovgradkhimmash OJSC shares as a security for long-term borrowings.

(vi) Loan covenants

Under the terms of its loan agreements, the Group is required to comply with a number of covenants, including maintenance of the certain level of net assets and certain other requirements.

At 31 December 2009, due to the breach of certain covenants, the banks were contractually entitled to request early repayment of the outstanding amounts of RR 650,000 with original maturities of less than twelve months after the reporting date. The loans were not called by the lenders earlier than their respective contractual maturity dates.

32 Segment Information

Management has determined the operating segments based on the management reports, which are primarily derived from unaudited and not reviewed IFRS financial statements. The management reports are reviewed by the chief operating decision-maker that is used to make strategic decisions. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the General Director of the Company. The following criteria have been used for determining the operating segments and assigning the Group subsidiaries to particular segment:

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

The first operating segment "Industrial pumps" includes:

	30 September 2010	30 September 2009
1	HMS Pumps OJSC (formerly Livhydomash OJSC)	Livhydomash OJSC
2	LPKC LLC	LPKC LLC
3	HMS Household Pumps OJSC (formerly Electrodivigatel OJSC)	Electrodivigatel OJSC
4	Livnynasos OJSC	Livnynasos OJSC
5	HYDROMASHINPROM CJSC	HYDROMASHINPROM CJSC
6	Nasosenergomash OJSC	Nasosenergomash OJSC
7	Trade house HYDROMASHSERVICE Ukraine LLC (formerly TD Sumskie nasosy LLC)	Trade house HYDROMASHSERVICE Ukraine LLC (formerly TD Sumskie nasosy LLC)
8	SPA Gydromash CJSC	SPA Gydromash CJSC
9	Nizhnevertovskremservis CJSC	Nizhnevertovskremservis CJSC
10	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
11	Institute Rostovskiy Vodokanalproekt OJSC	Institute Rostovskiy Vodokanalproekt OJSC
12	Plant Promburvod OJSC	Plant Promburvod OJSC
13	-	Hydomash-Industria LLC

32 Segment Information (continued)

The second operating segment "Modular equipment" (former "Oil and gas equipment" segment) includes:

1	HMS Neftemash OJSC (formerly Neftemash OJSC)	Neftemash OJSC
2	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
3	SPA Gydromash CJSC	SPA Gydromash CJSC
4	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
5	EPF "SIBNA" Inc. OJSC	EPF "SIBNA" Inc. OJSC

The third operating segment "Engineering, procurement and construction" (EPC, former "Oil and gas construction" segment) includes:

1	Trest Sibkomplektmontaghnaladka OJSC	Trest Sibkomplektmontaghnaladka OJSC
2	HYDROMASHSERVICE CJSC	-
3	Tomskgazstroy OJSC	Tomskgazstroy OJSC
4	Giprotumenneftegaz OJSC	-

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

1	HMS Group Management LLC (formerly Hydraulic Machines and Systems Management LLC)	Hydraulic Machines and Systems Management LLC
2	GMS Group OJSC (formerly Hydraulic Machines and Systems Group LLC)	GMS Group OJSC (formerly Hydraulic Machines and Systems Group LLC)
3	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
4	United Industrial Group LLC (no business)	United Industrial Group LLC (no business)
5	Sibservice LLC (no business)	Sibservice LLC (no business)
6	Hydromashkomplekt LLC	Hydromashkomplekt LLC
7	Business Centre Hydromash LLC	Business Centre Hydromash LLC
8	HMS-Promburvod CJSC	HMS-Promburvod CJSC
9	Hydroindusriya LLC	-
10	Hydromashinvest LLC	-
11	HMS-Holding LLC	-
12	Promhydroservice LLC	-
13	HMS Hydraulic Machines & Systems Group plc	-

Associates. The first operating segment "Industrial pumps" also includes VNIIAEN OJSC, an associate of the Group. The second operating segment "Modular equipment" also includes Dimitrovgradkhimmash OJSC, an associate of the Group.

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

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

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

Management of the Group assesses the performance of operating segments based on a measure of adjusted EBITDA, which is derived from the consolidated financial statements prepared in accordance with IFRS.

For this purpose, EBITDA is defined as operating profit/loss adjusted for other income/expenses, depreciation and amortisation, provision for obsolete inventory, provision for impairment of accounts receivable, unused vacation allowance, excess of fair value of net assets acquired over the cost of acquisition. This measurement basis excludes the effects on non-recurring expenditure from the operating segments, such as restructuring costs, legal expenses and goodwill impairments, when the impairment is a result of an isolated, non-recurring event.

The segment information provided to the CODM for the reportable segments is reconciled to corresponding amounts reported in the Group's consolidated condensed interim financial information prepared in accordance with IFRS.

32 Segment Information (continued)

The segment information provided to the CODM for the reportable segments for the nine months ended 30 September 2010 is as follows:

Disclosures by segments	Industrial pumps	Modular equipment	EPC	All other segments	Total	Consolidated for the nine months ended 30 September 2010
Revenue External, Management Report	7,598,280	4,003,980	4,392,305	134,086	16,128,651	16,128,651
Revenue Internal, Management Report	26,506	9,891	924	419,737	457,058	457,058
EBITDA, Management Report	1,501,646	422,258	262,251	81,602	2,267,757	2,267,757
Share of results of associates	(2,404)	11,675	-	-	9,271	9,271

The segment information provided to the CODM for the reportable segments for the nine months ended 30 September 2009 is as follows:

Disclosures by segments	Industrial pumps	Modular equipment	EPC	All other segments	Total	Consolidated for the nine months ended 30 September 2009
Revenue External, management report	4,251,715	3,408,811	2,035,756	239,582	9,935,864	9,935,864
Revenue Internal, management report	75,563	2,687	-	396,782	475,032	475,032
EBITDA, management report	645,486	672,003	145,928	63,385	1,526,802	1,526,802
Share of results of associates	(4,764)	27,684	-	-	22,920	22,920

The Group has decided to early adopt improvements to IFRS 8 issued in April 2009, which allow to the Group to not disclose information about segment assets and liabilities in this consolidated condensed interim financial information, since such information is not regularly provided to the CODM.

Reconciliation of financial information analysed by CODM to corresponding information presented in this consolidated condensed interim financial information is presented below:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Total revenue for reportable segments	16,585,709	10,410,896
Less intersegment revenue	(457,508)	(475,032)
Adjustments related to revenue from construction contracts	29,070	(161,753)
Other adjustments	-	929
Total revenue, IFRS	16,157,271	9,775,040
EBITDA, management report	2,267,757	1,526,802
Adjustments related to revenue from construction contracts	29,070	(70,990)
Adjustments to recognise expenses in correct period	(28,956)	(24,984)
Eliminations and other adjustments	(17,119)	(10,048)
EBITDA, IFRS	2,250,752	1,420,780
Depreciation and amortisation	(267,372)	(257,949)
Non-monetary items*	101,409	(159,064)
Impairment of property, plant and equipment and intangible assets	-	(14,320)
Impairment of goodwill	-	(116,998)
Other operating expenses, net	(53,541)	(88,491)
Operating profit	2,031,248	783,958
Finance income	45,614	41,564
Finance costs	(668,200)	(658,315)
Share of results associates	9,271	22,920
Profit before income tax, IFRS	1,417,933	190,127

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

33 Subsequent Events

Borrowings. Subsequent to the statement of financial position date the Group's subsidiaries received long-term RR-denominated loans in amount of RR 756,323 from Sberbank and OJSC NOMOS-BANK, bearing interest rates of 8.75-10.50% and payable from November 2011 to April 2012. These loans are secured by guarantees issued by the companies of the Group. The Group also obtained a long-term EUR-denominated letter of credit of RR 63,844 payable in February 2014.

The Group's subsidiaries also received short-term loans of RR 100,000 and redeemed short-term loans of RR 452,850.

On the basis of contractual provisions of loan agreements which allow periodic revisions of interest rates, the Group renegotiated the decrease of interest rates for long-term loans 1, 2, 5 and 6 (Note 15) from 10.5% per annum to 9.55% per annum starting 1 December 2010.

Dividends. The Group's subsidiaries declared dividends to non-controlling interest holders in amount of RR 174,517.

Group reorganisation. In December 2010, the shareholders of the Company signed a shareholders' agreement, prescribing them till 31 January 2011 to contribute their shares in the Company into the share capital of a private Cyprus entity named HMS Technologies Ltd. In accordance with this agreement the group of shareholders comprising former shareholders of Hydroindustry LLC will have the right to appoint all members of the Boards of Directors of HMS Technologies Ltd. and of the Company, other than one director, and the group of shareholders comprising former shareholders of Hydromashinvest LLC will have the right to appoint one director to the Boards of Directors of HMS Technologies Ltd. and of the Company, who will oversee the control and revision function. As of the date of issuing of the consolidated condensed interim financial information the process of reorganisation has not been completed.