OJSC Power Machines and subsidiaries

Consolidated financial statements
For the Year Ended December 31, 2012

OJSC POWER MACHINES AND SUBSIDIARIES

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Auditors' Report

To the Shareholders and Board of Directors

OJSC Power Machines

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Power Machines – ZTL, LMZ, Electrosila, Energomachexport" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: Open Joint Stock Company "Power Machines – ZTL, LMZ, Electrosila, Energomachexport"

Registered by Moscow Registration Chamber on 21 June 1991, Registration No. 003.567.

Entered in the Unified State Register of Legal Entities on 4 July 2002 by Tax Inspectorate of Ministry for Taxes and Duties of Russian Federation for Moscow, Registration No.1027700004012, Certificate series 77 No. 007920440

3A, Vatutina street, Saint-Petersburg, Russia, 195009

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

ZAO KPMG (North-West Regional Centre) registered by the Saint-Petersburg Registration Chamber on 13 June 1997, Registration No. 74620.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

Mr. Yagnov I.A., Director of ZAO KPMG North-West Regional Centre, (power of attorney dated 27 October 2011)

ZAO KPMG

7 March 2013

Saint-Petersburg, Russian Federation

OJSC POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2012
(Tabular amounts in thousands of US dollars unless otherwise stated)

	Note	2012	2011
Revenue	4	2 094 596	1 702 856
Cost of sales		(1 405 205)	(1 133 250)
Gross profit		**689 391**	**569 606**
Distribution expenses		(61 156)	(77 183)
Administrative expenses		(128 717)	(105 311)
Other taxes and contributions		(12 027)	(9 871)
Share of profit of equity accounted investees (net of income tax)		1 256	-
Other income		13 735	5 504
Other expenses		(15 143)	(9 098)
Profit from operations		**487 339**	**373 647**
Impairment of non-current assets		-	(2 195)
Net other non-operating (expenses)		(6 252)	(4 549)
Profit before financing and taxation		**481 087**	**366 903**
Financial income	6	37 837	29 497
Financial expenses	6	(43 785)	(14 349)
Net foreign exchange (losses)/gain		(14 539)	8 033
Profit before income tax		**460 600**	**390 084**
Income tax expense	7	(83 263)	(67 040)
Profit for the year		**377 337**	**323 044**
Attributable to:			
shareholders of OJSC Power Machines		372 603	316 841
non-controlling interests		4 734	6 203
		377 337	**323 044**
Weighted average number of shares outstanding during the year		8 708 938 708	8 708 938 708
Basic and diluted earnings per share (US dollars)		0.0428	0.0364

These consolidated financial statements were approved by the Management Board on March 7, 2013 and were signed on its behalf by:

Igor Y. Kostin
General Director

Vadim K. Chechnev
Chief Financial Officer

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 53.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012
(Tabular amounts in thousands of US dollars unless otherwise stated)

	2012	2011
Profit for the year	**377 337**	**323 044**
Other comprehensive income		
Currency translation differences	63 303	(62 059)
Actuarial gains on defined benefit plans	991	-
Total comprehensive income for the year	**441 631**	**260 985**
Attributable to:		
shareholders of OJSC Power Machines	434 739	257 983
non-controlling interests	6 892	3 002
	441 631	**260 985**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 53.

OJSC POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2012
(Tabular amounts in thousands of US dollars unless otherwise stated)

	Note	2012	2011
Assets			
Current assets:			
Cash and cash equivalents	15	215 738	686 400
Short-term bank deposit		82 963	40 143
Trade accounts receivable	12	472 083	342 292
Restricted cash		15 883	1 362
Amounts due from customers under construction contracts	8	1 279 743	834 590
Advances paid to suppliers		173 457	149 738
Inventories	11	302 234	187 854
VAT recoverable		81 719	63 517
Short-term financial investments	14	276 056	976
Other current assets	13	37 917	45 474
Total current assets		**2 937 793**	**2 352 346**
Non-current assets:			
Property, plant and equipment	9	847 589	544 733
Goodwill	10	307 566	3 492
Other intangible assets	10	119 858	55 368
Deferred tax assets	7	28 301	39 368
Trade accounts receivable	12	61 806	43 365
Restricted cash		3 226	-
Long-term financial investments	14	107 876	94 074
Other assets	13	1 133	1 102
Total non-current assets		**1 477 355**	**781 502**
Total assets		**4 415 148**	**3 133 848**
Liabilities and shareholder's equity			
Current liabilities:			
Trade accounts payable	19	252 330	132 996
Amounts due to customers under construction contracts	8	77 363	41 781
Advances received from customers	18	2 027 161	1 837 702
Debt finance	17	183 048	601
Other taxes and social security payable		16 930	34 337
Provisions for contingencies	22	90 563	88 009
Other liabilities	21	68 310	49 833
Total current liabilities		**2 715 705**	**2 185 259**
Non-current liabilities:			
Debt finance	17	202 461	6 338
Deferred tax liabilities	7	45 233	12 588
Employees benefit liabilities	23	4 106	-
Other liabilities	21	10 221	3 718
Total non-current liabilities		**262 021**	**22 644**
Total liabilities		**2 977 726**	**2 207 903**
Equity:			
Share capital	16	11 141	11 141
Additional paid-in capital		400 025	400 025
Foreign currency translation reserve		27 949	(33 315)
Retained earnings		868 102	489 088
Total equity attributable to the Company's shareholders		**1 307 217**	**866 939**
Non-controlling interests		130 205	59 006
Total equity		**1 437 422**	**925 945**
Total equity and liabilities		**4 415 148**	**3 133 848**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 53.

OJSC POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Tabular amounts in thousands of US dollars unless otherwise stated)

	2012	2011
Cash flows from operating activities:		
Profit before financing and taxation	481 087	366 903
Adjustments for:		
Depreciation and amortization	81 484	63 115
Change in provision for doubtful trade and other accounts receivable	14 706	5 145
Change in provision for obsolete inventories	(13 994)	(7 616)
Change in provisions for contingencies	(17 709)	(51 700)
Share of profit of equity accounted investees (net of income tax)	(1 256)	-
Other	7 571	6 236
Operating profit before changes in working capital and provisions	**551 889**	**382 083**
Changes in operating assets and liabilities		
Inventories	(35 865)	(27 140)
Amounts due from customers under construction contracts	(146 267)	61 343
Trade accounts receivable	(43 574)	(96 434)
Advances paid to suppliers	34 452	4 807
VAT recoverable	(2 572)	9 832
Trade accounts payable	65 043	(1 843)
Amounts due to customers under construction contracts	23 956	22 837
Advances received from customers	(200 803)	133 577
Other taxes and social security payable	(27 151)	17 851
Other operating assets and liabilities	(3 701)	(12 160)
Cash flows from operations before income tax and interest paid	**215 407**	**494 753**
Interest paid	(43 347)	(14 228)
Income tax paid	(70 571)	(82 199)
Net cash from operating activities	**101 489**	**398 326**
Investing activities:		
Additions to property, plant and equipment and intangible assets	(137 001)	(179 214)
Net cash flow from deposits	(73 934)	43 334
Net cash flow from investing in related parties	(25 754)	(71 451)
Net cash flow from short term financial investments	(217 256)	-
Acquisition of subsidiary, net of cash acquired	(286 624)	-
Proceeds from disposal of property, plant and equipment and other assets	566	2 230
Interest received	28 658	16 268
Net cash used in investing activities	**(711 345)**	**(188 833)**
Financing activities:		
Proceeds from debt finance	678 022	133 138
Repayment of debt finance	(571 186)	(166 116)
Acquisition of non-controlling interests	(6 596)	-
Non-controlling interests capital distributions	(3 183)	-
Net cash from/(used in) financing activities	**97 057**	**(32 978)**
Net (decrease)/increase in cash and cash equivalents	(512 799)	176 515
Effect of exchange rates on cash and cash equivalents	42 137	(11 461)
Cash and cash equivalents at beginning of the year	686 400	521 346
Cash and cash equivalents at end of the year	**215 738**	**686 400**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 53.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012
(Tabular amounts in thousands of US dollars unless otherwise stated)

	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total equity attributable to the Company's shareholders	Non-controlling interests	Total equity
Balance at December 31, 2010	**11 141**	**400 025**	**25 543**	**184 771**	**621 480**	**57 804**	**679 284**
Total comprehensive income for the year							
Profit for the year	-	-	-	316 841	316 841	6 203	323 044
Foreign currency translation differences	-	-	(58 858)	-	(58 858)	(3 201)	(62 059)
Total comprehensive income for the year	-	-	(58 858)	316 841	257 983	3 002	260 985
Transactions with owners recorded directly in equity							
Effect of disposal of gas turbine business	-	-	-	(12 524)	(12 524)	(1 800)	(14 324)
Balance at December 31, 2011	**11 141**	**400 025**	**(33 315)**	**489 088**	**866 939**	**59 006**	**925 945**
Total comprehensive income for the year							
Profit for the year	-	-	-	372 603	372 603	4 734	377 337
Foreign currency translation differences	-	-	61 145	-	61 145	2 158	63 303
Actuarial gains on defined benefit plans				991	991	-	991
Total comprehensive income for the year	-	-	61 145	373 594	434 739	6 892	441 631
Transactions with owners recorded directly in equity							
Acquisition of subsidiary with non-controlling interests	-	-	-	-	-	77 281	77 281
Acquisition of non-controlling interests without a change in control	-	-	119	5 420	5 539	(12 015)	(6 476)
Dividends on preference shares of subsidiaries	-	-	-	-	-	(959)	(959)
Balance at December 31, 2012	**11 141**	**400 025**	**27 949**	**868 102**	**1 307 217**	**130 205**	**1 437 422**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 53.

1. ORGANISATION AND OPERATIONS

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

The Company was established as a state-owned enterprise in 1966. It was incorporated as a closed joint stock company on June 21, 1991, as part of the Russian Federation's privatisation program. It was converted to an open joint stock company on June 28, 2002. The principal activity of the Group is focused on power and automation technologies which include the manufacture of turbines, generators, boilers and other energy-generating equipment at plants located in Russia in St. Petersburg, Kaluga and Taganrog. During 2008 the Group acquired a controlling interest in OAO "Kaluzhsky Turbinny Zavod" ("KTZ") and during 2012 acquisition of the controlling interest in OJSC "Energomashinostroitelny Alliance" (OJSC "EMAlliance") was completed (see note 27). The Group's products are sold in the Russian Federation and abroad. The Group participates in international and national tenders for the supply, installation, construction and manufacture of energy-generating equipment.

At the reporting date immediate ultimate parent company of the Company is Highstat Ltd. (98.45%). The ultimate controlling party of Highstat Ltd. is Mr Alexey A Mordashov.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The Group has also prepared IFRS consolidated financial statements presented in Russian rubles and in the Russian language in accordance with the Federal Law No. 208 – FZ "On consolidated financial reporting".

Basis of measurement

The consolidated statements are prepared on the historical cost basis except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs.
The accounting policies consistently applied in the preparation of these consolidated financial statements are set out in note 3.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (or "rouble"). The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

The functional currency is determined separately for an each of the Group's entities. For all Russian entities the functional currency is the Russian rouble. The functional currency of the Group's entity located in India is the Indian Rupee. The functional currencies of the Group's entities located in Europe are the Euro and the Croatian Kuna. The functional currencies of the Group's entities located in Central and South America are the Mexican Peso and the Colombian Peso.

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

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

- all assets and liabilities are translated at closing exchange rates at the dates of each statement of financial position presented;
- all income and expenses in each income statement have been translated at the average exchange rates for the periods presented that approximate the actual exchange rates existing at the dates of the transactions; and
- all resulting exchange differences have been recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

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

Current assets and liabilities

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

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

Use of estimates and judgements

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

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

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

- Note 8 – accounting for construction contracts;
- Note 3 – useful lives of property, plant and equipment;
- Note 3 – useful lives of intangible assets;
- Note 11 – provision for obsolete inventories;
- Note 12 – impairment of trade accounts receivable;
- Note 22 – provisions for contingencies;
- Note 26 – commitments and contingencies.

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

Statement of cash flows

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

Prior year reclassifications

Certain comparative information, based on the consolidated statement of financial position as at December 31, 2011 and statement of cash flows for the year ended December 31, 2011 has been reclassified. Reclassifications were based upon management's decision to enhance disclosure of the Group's results of operations through improved presentation. The effect of reclassifications is presented below:

	Before	After	Difference
Statement of financial position:			
Current assets:			
Cash and cash equivalents	687 762	686 400	(1 362)
Restricted cash	-	1 362	1 362
Trade accounts receivable	340 421	342 292	1 871
Advances paid to suppliers	142 483	149 738	7 255
Advances paid to related parties	10 923	-	(10 923)
Short-term financial investments	-	976	976
Other current assets	44 653	45 474	821
Total current assets			-
Non-current assets:			
Trade accounts receivable	37 668	43 365	5 697
Trade accounts receivable from related parties	5 697	-	(5 697)
Long-term financial investments	21 464	94 074	72 610
Investments in related parties	72 610	-	(72 610)
Total non-current assets			-
Total assets			
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable	127 898	132 996	5 098
Trade and other accounts payable to related parties	7 600	-	(7 600)
Advances received from customers	1 837 098	1 837 702	604
Other liabilities	47 935	49 833	1 898
Total current liabilities			-

Statement of cash flows	Before	After	Difference
Cash flows from operating activities:			
Advances paid to suppliers	5 187	4 807	(380)
Advances paid to related parties	(380)	-	380
Trade accounts payable	9 300	(1 843)	(11 143)
Trade and other accounts payable to related parties	(11 143)	-	11 143
Net cash from operating activities:			-
Investing activities:			
Additions to property, plant and equipment and intangible assets	(177 852)	(179 214)	(1 362)
Net cash used in investing activities			**(1 362)**
Net increase in cash and cash equivalents	177 877	176 515	(1 362)
Cash and cash equivalents at end of the year	687 762	686 400	(1 362)

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied to all periods presented in these consolidated financial statements throughout the Group.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.
The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Loss of control

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

Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.
The consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group’s share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

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

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at the exchange rates at the reporting date.

The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

Property, plant and equipment

Owned assets

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

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

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

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

Subsequent expenditure

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

Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation commences on the date when an asset is ready for its intended use. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

- Buildings 30 - 90 years;
- Machinery and equipment 15 - 30 years;
- Transportation equipment 5 - 18 years;
- Other property and equipment 4 - 25 years.

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

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

Intangible assets

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). For the measurement of Goodwill at initial recognition see note 3 Business Combinations.

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

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

Research and development

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

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

Other intangible assets

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

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

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

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

Financial assets

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

Financial assets are classified into the following specified category: ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

Loans and other receivables

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

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

Impairment of financial assets

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

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

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

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

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

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

Derecognition of financial assets

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

Inventories

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

Cash and cash equivalents

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

Impairment

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

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

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

Calculation of recoverable amount

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

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

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

Reversals of impairment

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

Financial liabilities

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

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

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

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

Leases

Finance leases

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

Operating leases

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

Employee benefits

The Group has agreed to provide certain additional post employment benefits to employees. These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for an each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the income statement and other comprehensive income over the period.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia’s State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Provisions

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

Warranties

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

Onerous contracts

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

Government grants

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

Revenue

Goods sold and services rendered

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

Construction contracts

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

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

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

All revenue is stated net of taxes and discounts.

Expenses

Agents' fees

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

Social costs

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

Financial income and expenses

Financial income and expenses comprise interest expense on borrowings, interest income on funds invested; dividend income (except for dividends from equity associates); foreign exchange gains and losses; gains and losses on disposal of securities.

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

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

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Income tax

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

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax is not recognized in respect of the following:

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

Earnings/(loss) per share

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

Segment reporting

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

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

The Management Board assesses the performance of the operating segment based on measures for sales, profit before income tax, segment assets and segment liabilities and other information are consistent with that in the consolidated financial statements.

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

The accounting policies used for the segment are the same as accounting policies applied for the consolidated financial statements.

The segment information as at and for the year ended December 31, 2012 is as follows:

	2012	2011
Revenue	2 094 596	1 702 856
Profit before income tax	460 600	390 084

	2012	2011
Segment assets	4 415 148	3 133 848
Capital expenditures	137 001	179 214
Segment liabilities	2 977 726	2 207 903

Adoption of new and revised IFRS

A number of new International Financial Reporting Standards ("Standards"), amendmends to Standards and Interpretations were adopted for the year ended December 31, 2012, and have been applied in these consolidated financial statements.

The adoption of the pronouncements did not have a significant impact on the Group's consolidated financial statements.

New accounting pronouncements

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

Standards and Interpretations	Effective for annual periods beginning on or after
IAS 1 (Amended) "Presentation of financial statements"	July 1, 2012, January 1, 2013
IAS 16 (Amended) "Property, Plant and Equipment"	January 1, 2013
IAS 19 (Amended) "Employee benefits"	January 1, 2013
IAS 27 (Amended) "Separate financial statements"	January 1, 2013, January 1, 2014
IAS 28 (Amended) "Investments in associates and joint ventures	January 1, 2013
IAS 32 (Amended) "Financial instruments: presentation"	January 1, 2013, January 1, 2014
IAS 34 (Amended) "Interim Financial Reporting"	January 1, 2013
IFRS 1 (Amended) "First-time adoption of international financial reporting standards"	January 1, 2013
IFRS 7 (Amended) "Financial instruments: disclosure"	January 1, 2013
IFRS 9 (Amended) "Financial instruments"	January 1, 2015
IFRS 10 (Amended) "Consolidated Financial Statements"	January 1, 2013, January 1, 2014
IFRS 11 (Amended) "Joint arrangements"	January 1, 2013
IFRS 12 (Amended) "Disclosure of interests in other entities"	January 1, 2013, January 1, 2014
IFRS 13 "Fair value measurement"	January 1, 2013
IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"	January 1, 2013

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

Determination of fair values

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

Property, plant and equipment

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

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

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

Inventories

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

Equity

The fair value of equity is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate.

Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

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

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

4. REVENUE

	2012	2011
Income from:		
Construction contract revenue	1 813 816	1 425 309
Sale of goods	164 843	144 498
Rendering services	105 757	114 878
Other	10 180	18 171
	2 094 596	**1 702 856**

	2012	2011
Russia	1 736 677	1 408 153
Europe	178 310	114 749
India	59 571	77 470
China and Central Asia	59 936	47 498
Central and South America	42 974	44 809
South-East Asia	4 893	1 378
Other	12 235	8 799
	2 094 596	**1 702 856**

5. STAFF COSTS

	2012	2011
Wages, salaries and related taxes included in:		
cost of sales	293 246	265 930
administrative expenses	73 643	50 437
distribution costs	24 716	24 772
	391 605	**341 139**

Included in the above employment costs are amounts paid to key management personnel during the year of US$ 17.1 million (2011: US$ 16.1 million). Key management personnel does not receive any benefits not also available to other employees of the Group.

The average number of employees for the year ended December 31, 2012 was 20 844 (2011: 15 492).

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

6. FINANCIAL INCOME AND EXPENSES

	2012	2011
Financial income		
Interest income	37 837	29 497
	37 837	**29 497**
Financial expenses		
Interest expense	27 357	1 488
Bank guarantee expenses	13 721	10 554
Bank charges	2 707	2 307
	43 785	**14 349**

7. INCOME TAX EXPENSE

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

	2012	2011
Current tax expense	75 155	66 583
Deferred tax expense	8 108	457
	83 263	**67 040**

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

	2012	2011
Profit before income taxes	460 600	390 084
Tax charge at Russian statutory rate 20%	92 120	78 017
Profits taxed at different rates	2 543	(3 835)
Corrections for prior year's current tax charge	(406)	(276)
Non-deductible expenses	5 663	1 960
Non-taxable income	(1 423)	(410)
Effect of tax concessions	(15 234)	(8 416)
Tax expense	**83 263**	**67 040**

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

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

	2012	2011
Deferred tax assets		
Provisions	14 773	13 294
Inventories	35 137	23 276
Investments	64	-
Intangible assets	139	-
Amounts due to/from customers under construction contracts	10 558	13 390
Trade and other accounts receivable	10 621	5 234
Trade and other accounts payable	2 784	6 095
	74 076	**61 289**
Less: offset against deferred tax liabilities	(45 775)	(21 921)
	28 301	**39 368**
Deferred tax liabilities		
Property, plant and equipment	(50 168)	(22 193)
Intangible assets	(11 741)	(985)
Amounts due to/from customers under construction contracts	(26 817)	(10 641)
Investments	(1 484)	(690)
Trade and other accounts payable	(678)	-
Trade and other accounts receivable	(137)	-
	(91 025)	**(34 509)**
Less: offset against deferred tax assets	45 775	21 921
Tax loss carry-forwards	17	-
	(45 233)	**(12 588)**
Net deferred tax (liabilities)/assets	**(16 932)**	**26 780**

	2012	2011
Opening balance	26 780	28 790
Acquired through business combination	(37 617)	-
Benefit recognised during the year	(8 108)	(457)
Foreign exchange gains/(losses)	2 013	(1 553)
Closing balance	**(16 932)**	**26 780**

Taxable differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal of temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to US$ 140.7 million at December 31, 2012 (December 31, 2011: US$ 60.9 million).

8. CONSTRUCTION CONTRACTS

Contracts in progress at the reporting date:

	2012	2011
Construction costs incurred plus recognized profits less recognized losses	6 592 826	4 564 872
Less: progress billings	(5 390 446)	(3 772 063)
	1 202 380	**792 809**

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

Recognised and included in the financial statements as amounts due:

	2012	2011
From customers under construction contracts	1 279 743	834 590
To customers under construction contracts	(77 363)	(41 781)
	1 202 380	**792 809**

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

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

9. PROPERTY, PLANT AND EQUIPMENT

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

	Land and buildings	Machinery and equipment	Transportation equipment	Other	Assets under construction	Total
Cost/Deemed cost						
At January 1, 2011	**418 327**	**838 223**	**14 771**	**72 078**	**99 414**	**1 442 813**
Additions	6 559	5 506	1 141	9 279	141 054	163 539
Transfers	3 741	16 939	57	1 078	(21 815)	-
Transfer to inventories	-	-	-	-	(1 732)	(1 732)
Disposals	(7 911)	(16 007)	(6 495)	(11 924)	(1 339)	(43 676)
Foreign currency translation difference	(21 010)	(41 745)	(633)	(3 886)	(14 725)	(81 999)
At December 31, 2011	**399 706**	**802 916**	**8 841**	**66 625**	**200 857**	**1 478 945**
Reclassification	(293)	(1 237)	34	1 440	56	-
Additions	2 024	10 345	612	10 842	96 632	120 455
Acquisitions through business combinations	92 772	127 105	4 618	813	6 010	231 318
Transfers	7 297	30 648	28	2 660	(40 633)	-
Disposals	(664)	(18 132)	(1 340)	(4 489)	(1 226)	(25 851)
Foreign currency translation difference	21 453	46 937	214	4 384	12 132	85 120
At December 31, 2012	**522 295**	**998 582**	**13 007**	**82 275**	**273 828**	**1 889 987**
Depreciation						
At January 1, 2011	**(277 039)**	**(629 910)**	**(12 598)**	**(47 937)**	**-**	**(967 484)**
Charge for the year	(6 511)	(36 956)	(909)	(9 110)	-	(53 486)
Impairment loss	(2 195)	-	-	-	-	(2 195)
Disposals	7 863	14 792	6 073	11 650	-	40 378
Foreign currency translation difference	13 184	32 047	552	2 792	-	48 575
At December 31, 2011	**(264 698)**	**(620 027)**	**(6 882)**	**(42 605)**	**-**	**(934 212)**
Reclassification	255	429	(120)	(564)	-	-
Charge for the year	(14 548)	(44 791)	(2 022)	(10 144)	-	(71 505)
Impairment loss	-	-	-	-	-	-
Disposals	493	15 534	1 275	2 290	-	19 592
Foreign currency translation difference	(14 924)	(38 244)	(208)	(2 897)	-	(56 273)
At December 31, 2012	**(293 422)**	**(687 099)**	**(7 957)**	**(53 920)**	**-**	**(1 042 398)**
Net book value						
At January 1, 2011	**141 288**	**208 313**	**2 174**	**24 141**	**99 414**	**475 330**
At December 31, 2011	**135 008**	**182 889**	**1 959**	**24 020**	**200 857**	**544 733**
At December 31, 2012	**228 873**	**311 483**	**5 050**	**28 355**	**273 828**	**847 589**

Within the category “Land and buildings” above, the carrying value of land is US$ 20.1 million (2011: US$ 13.5 million).

At the reporting date property, plant and equipment with a carrying amount of US$ 61.6 million (2011: US$ 23.4 million) have been pledged to secure borrowings and bank guarantees of the Group (see note 17).

Leased machinery

The Group leases production equipment and vehicles under a number of finance lease agreements. As at December 31, 2012 the net carrying amount of leased machinery and transportation equipment was US$ 12.5 million (2011: US$ 0.4 million).

10. INTANGIBLE ASSETS

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group as a whole which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group’s operating segment as reported in note 3.

The impairment test was based on value in use calculation which was estimated using discounted cash flow projections. As a result of the testing no impairment was recognised.

Key assumptions used in the calculation of recoverable amounts are discount rates and terminal value growth rates. The values assigned to the key assumptions represented management assessment of future trends in the power and automation technologies which include the manufacture of turbines, generators, boilers and other energy-generating equipment at plants and were based on both external and internal sources (historical data).

The key assumptions were as follows:

- A pre-tax discount rate of 16.44%
- Terminal value growth rate of 3%

The discount rate used in calculations was a post-tax measure estimated based on the past experience, and an industry average weighted cost of capital, which is based on a possible range of debt leveraging of 14 percent at a market interest rate of 10.7 percent.

Ten years of cash flows were included in the discounted cash flow model. A long-term growth rate was based on management’s estimate of the long-term stable EBITDA rate, which management believed was consistent with the assumption that a market participant would make.

The analysis of the key assumptions used in the calculation of recoverable amounts did not indicate any sensitive areas, changes in which would result in the impairment loss to be recognised.

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

The movements in intangible assets are as follows:

		Development projects			
	Goodwill	**Completed**	**In process**	**Other intangible assets**	**Total**
Cost					
At January 1, 2011	**3 689**	**24 996**	**24 431**	**22 165**	**75 281**
Additions	-	3 099	20 453	7 924	31 476
Transfers	-	338	(4 080)	3 742	-
Disposals	-	(730)	(6 902)	(3 060)	(10 692)
Foreign currency translation difference	(197)	(1 168)	(2 287)	(1 509)	(5 161)
At December 31, 2011	**3 492**	**26 535**	**31 615**	**29 262**	**90 904**
Reclassification	-	163	18	(181)	-
Additions	-	371	13 075	6 885	20 331
Acquisitions through business combinations	308 800	-	-	53 168	361 968
Transfers	-	771	(2 213)	1 442	-
Disposals	-	(660)	(619)	(2 889)	(4 168)
Foreign currency translation difference	(4 726)	1 608	2 203	854	(61)
At December 31, 2012	**307 566**	**28 788**	**44 079**	**88 541**	**468 974**
					-
Amortization and impairment losses					-
At January 1, 2011	**-**	**(17 259)**	**-**	**(10 678)**	**(27 937)**
Charge for the year	-	(3 606)	-	(6 023)	(9 629)
Disposals	-	727	-	2 587	3 314
Foreign currency translation difference	-	1 194	-	1 014	2 208
At December 31, 2011	**-**	**(18 944)**	**-**	**(13 100)**	**(32 044)**
Reclassification	-	(357)	-	357	-
Charge for the year	-	(3 265)	-	(6 714)	(9 979)
Disposals	-	648	-	1 757	2 405
Foreign currency translation difference	-	(1 216)	-	(716)	(1 932)
At December 31, 2012	**-**	**(23 134)**	**-**	**(18 416)**	**(41 550)**
Net book value					
At January 1, 2011	**3 689**	**7 737**	**24 431**	**11 487**	**47 344**
At December 31, 2011	**3 492**	**7 591**	**31 615**	**16 162**	**58 860**
At December 31, 2012	**307 566**	**5 654**	**44 079**	**70 125**	**427 424**

The total amount of research and development expenditure recognised as an expense during 2012 was US$ 1.3 million (2011: US$ 0.4 million).

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

11. INVENTORIES

	2012	2011
Raw materials and consumables	148 772	95 359
Work in progress	128 411	77 152
Finished goods and goods for resale	54 153	62 522
Supplies	5 900	3 817
	337 236	238 850
Provision for obsolete inventories	(35 002)	(50 996)
	302 234	**187 854**

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

The movement in the inventory obsolescence provision was:

	2012	2011
Opening balance	(50 996)	(64 704)
Change in provision recognized in income statement	13 994	7 616
Amounts written off against provisions	5 143	2 749
Foreign exchange difference	(3 143)	3 343
Closing balance	**(35 002)**	**(50 996)**

Cost of inventories recognised as an expense during 2012 was US$ 699.5 million (2011: US$ 714.7 million).

12. TRADE ACCOUNTS RECEIVABLE

	2012	2011
Current trade accounts receivable, net		
Contract retentions billed to customers	125 404	102 313
Other trade accounts receivable	370 753	251 776
Impairment provision for doubtful trade accounts receivable	(24 074)	(11 797)
	472 083	**342 292**
Non-current trade accounts receivable, net		
Contract retentions billed to customers	59 670	37 179
Other trade accounts receivable	2 136	6 186
	61 806	**43 365**
Net total trade accounts receivable	**533 889**	**385 657**

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

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component. The allowance amount is used to record impairment losses until the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and written off against the financial asset directly.

As discussed in note 26, as a result of recent economic turmoil in capital and credit markets globally, and the consequential economic uncertainties existing at December 31, 2012, there exists the potential that assets may be not recovered at their carrying amount in the ordinary course of business. The recoverability of accounts receivable depends to a large extent on the efficacy of the fiscal and other measures as well as other actions, beyond the Group's control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the Group's accounts receivable is determined based on conditions prevailing at December 31, 2012.

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

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

	2012	**2011**
Opening balance	(11 797)	(11 583)
Change in provision recognized in income statement	(16 576)	(5 145)
Amounts written off against provisions	4 384	4 409
Foreign exchange difference	(85)	522
Closing balance	**(24 074)**	**(11 797)**

Trade accounts receivable are denominated in the following currencies:

	2012	**2011**
Roubles	339 182	226 143
US dollars	96 032	88 660
Euros	64 315	59 472
Other	34 360	11 382
	533 889	**385 657**

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

Net trade accounts receivable are split by nature of counterparty, all of which are end-user customers, as follows:

Due from individual customer	Number of customers		Total receivables	
	2012	2011	2012	2011
0-10 000	530	462	119 734	109 242
10 000-20 000	10	7	145 001	95 622
20 000-100 000	8	5	269 154	180 793
			533 889	**385 657**

Region	Number of customers		Total receivables	
	2012	2011	2012	2011
Russia	16	10	337 022	225 636
India	3	3	67 396	38 945
Ukraine	1	-	17 232	-
Vietnam	-	1	-	20 884
Mexico	-	1	-	11 937
Iran	-	1	-	5 455
China	-	2	-	4 054
Other (0-10 000)	528	456	112 239	78 746
			533 889	**385 657**

Included in the Group's trade accounts receivable at the reporting date are debtors which are past due at the reporting date for which the Group has not provided because there has not been any significant change in credit quality and the amounts are still considered recoverable based on historic payment behavior and an analysis of customer credit risk. Based upon the Group's monitoring of credit risk, the Group believes that, except as indicated above, no impairment allowance is necessary in respect of trade accounts receivable.

The Group does not hold any collateral against these outstanding balances. Impairment provisions are made when management is aware of specific problems with recovery of amounts due.

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

	2012		2011	
	Gross	Impairment	Gross	Impairment
Not past due	448 066	(174)	342 308	(1)
Past due 0-30 days	28 519	-	4 739	(299)
Past due 31-90 days	31 208	-	5 034	-
Past due 91-180 days	12 170	(36)	3 354	-
Past due 181-365 days	10 336	-	3 890	(36)
Past due more than 365 days	27 664	(23 864)	38 129	(11 461)
	557 963	**(24 074)**	**397 454**	**(11 797)**

The Group exposure to credit and currency risks related to trade and other receivables is disclosed in note 24.

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

13. OTHER ASSETS

	2012	2011
Other receivables	22 614	33 103
Less provision for other receivables	(326)	(597)
	22 288	**32 506**
Deferred expenses	16 762	14 070
	39 050	**46 576**

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

The Group's exposure to credit and currency risks related to other assets is disclosed in note 24.

14. FINANCIAL INVESTMENTS

The total amount of short-term financial investments consist of loans issued to a related party of US$ 49.4 million (2011: nil) and loans issued to third parties of US$ 226.7 million (2011: US$ 0.9 million).

The total amount of long-term financial investments consist of deposits and loans to related parties of US$ 103.3 million (2011: US$ 92.4 million) which are disclosed in note 20, and investments related to third parties of US$ 4.5 million (2011: US$ 1.7 million). Investments to third parties consist of deposits and loans issued of US$ 0.8 million (2011: US$ 0.9 million) and investments in shares of US$ 3.7 million (2011: US$ 0.8 million).

15. CASH AND CASH EQUIVALENTS

	2012	2011
Bank accounts	47 911	72 581
Bank deposits	167 827	613 819
	215 738	**686 400**

Cash and cash equivalents are denominated in the following currencies:

	2012	2011
Roubles	174 073	624 671
US dollars	23 006	39 130
Euros	10 587	14 327
Other	8 072	8 272
	215 738	**686 400**

The Group only places deposits and maintains cash balances with major banks with strong credit ratings. The Group does not expect any counterparty to fail to meet its obligations.

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

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

The Group exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 24.

16. EQUITY

Share capital

Number of ordinary shares	**2012**	**2011**
On issue at beginning of year	8 708 938 708	8 708 938 708
On issue at end of year	**8 708 938 708**	**8 708 938 708**

At the reporting date the Company's authorised share capital comprised 9 359 450 000 ordinary shares (2011: 9 359 450 000) of which 8 708 938 708 ordinary shares (2011: 8 708 938 708 ordinary shares) were issued and fully paid. All shares have a par value of RUB 0.01 (2011: RUB 0.01). All shares carry equal voting and distribution rights.

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

Additional paid-in capital

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

Foreign currency translation reserve

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

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

	Statement of financial position		**Income statement**	
	2012	**2011**	**2012**	**2011**
Russian Rouble	30.3727	32.1961	31.0930	29.3874
Indian Rupee	54.7773	53.2660	53.4719	46.6596
Euro	0.7550	0.7726	0.7783	0.7188
Croatian Kuna	5.7268	-	5.8508	-
Colombian Peso	1768.2300	1942.7000	1797.7857	1847.6769
Mexican Peso	12.9880	13.9787	13.1751	12.4269

Dividends

During the year, the Company did not pay any dividends. The maximum dividend payable is limited to retained earnings of the Company as determined in accordance with the legislation of the Russian Federation. At the reporting date, reserves available for distribution in accordance with the legislation of the Russian Federation amounted to US$ 1 088.6 million (2011: US$ 754.6 million).

17. DEBT FINANCE

Terms and conditions of the Group’s outstanding loans were as follows:

				31 December 2012		**31 December 2011**	
	Currency	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan				**250 507**	**250 507**	**6 718**	**6 718**
	Roubles	LIBOR + 2.21%	2012-2015	5 570	5 570	6 338	6 338
	Roubles	8.40 - 10.35%	2013-2015	232 361	232 361	380	380
	Euros	4%	2012-2018	12 576	12 576	-	-
Unsecured bank facility				**132 489**	**132 489**	-	-
	Roubles	8.75 - 22.00%	2013	64 560	64 560	-	-
	Euros	3.25 - 9.80%	2013	67 929	67 929	-	-
Loan from associate (unsecured)				**34**	**34**	-	-
	Euros	4%	2012-2013	34	34	-	-
Finance lease liabilities				**2 755**	**2 479**	**240**	**221**
	Roubles	8.09 - 37.04%	2012-2014	2 755	2 479	240	221
Total interest-bearing liabilities				**385 786**	**385 509**	**6 958**	**6 939**

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

Finance lease liabilities are payable as follows:

	2012			2011		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	2 319	239	2 080	240	19	221
Between one and five years	436	37	399	-	-	-
	2 755	**276**	**2 479**	**240**	**19**	**221**

For more information about the Group's exposure to interest rate, foreign currency and liquidity risk see note 24.

At the reporting date, bank financing are carried either fixed interest rates between of 3.2% and 22% per annum or floating rates of Libor plus spreads of 2.2% per annum. The carrying value of debt finance approximates to its fair value.

At the reporting date, finance lease liabilities are carried at fixed interest rates between of 8% and 37% per annum.

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

	2012	2011
Inventories and amounts due from customers under construction contracts	-	788
Revenue from planned supply of equipment in the future	28 643	-
Property, plant and equipment	61 602	23 422
	90 245	**24 210**

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

	2012	2011
Pledged in respect of debt finance	79 474	5 583
Pledged in respect of bank guarantees received	10 771	18 627
	90 245	**24 210**

18. ADVANCES RECEIVED FROM CUSTOMERS

	2012	2011
In respect of construction contracts in progress	1 918 846	1 718 815
Other advances	108 315	118 887
	2 027 161	**1 837 702**

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

19. TRADE ACCOUNTS PAYABLE

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

Trade accounts payable are denominated in the following currencies:

	2012	2011
Roubles	157 648	73 660
US dollars	41 243	31 045
Euros	38 730	19 608
Other	14 709	8 683
	252 330	**132 996**

The Group exposure to liquidity and currency risks related to trade accounts payable is disclosed in note 24.

20. RELATED PARTY BALANCES AND TRANSACTIONS

Transactions with key management personnel

Apart from compensation, no transactions with the key management personnel took place during the year ended December 31, 2012.

Other related party transactions

The Group's related party transactions, which were all with entities under common control, during the year ended December 31, 2012 were as follows:

	2012	2011
Amounts payable		
Advances received from customers	612	604
Trade and other payables	2 759	6 996
Short - term other financing from related parties	34	-
	3 405	**7 600**
Amounts receivable		
Advances paid to customers	2 670	7 255
Trade and other accounts receivable	10 534	9 217
	13 204	**16 472**

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

	2012	2011
Deposits		
Short-term deposits (< 3 months)	2 215	94 084
Short-term deposits (3 - 12 months)	79 520	39 665
Long-term deposits	49 500	19 750
	131 235	**153 499**
Financial investments		
Investments in shares of associates	4 454	3 883
Investments in joint ventures and other related parties	49 395	22 138
Short-term loans issued	49 386	-
Long-term loans issued	-	46 589
	103 235	**72 610**

	2012	2011
Revenue		
Sales of goods	2 093	1 196
Services provided	622	970
	2 715	**2 166**
Other income		
Other operating income	6 482	7 223
Interest income from loans issued	2 858	614
Interest income from deposits	4 923	2 580
	14 263	**10 417**
Purchases		
Purchases of goods	24 323	74 912
Purchases of services	17 668	18 851
Purchases of services, related to construction in progress	1 052	1 091
	43 043	**94 854**

All transactions with related parties were entered into on an arm's length basis. Trade balances are settled on normal trading terms. The Group has no unimpaired past-due amounts receivable from related parties. The carrying values of amounts receivable from related parties approximate their fair values.

21. OTHER LIABILITIES

	2012	2011
Employee related liabilities	45 427	36 072
Other liabilities	33 104	17 479
	78 531	**53 551**

Maturity analysis:

	2012	2011
Within one year	68 310	49 833
Between one and five years	10 221	3 718
	78 531	**53 551**

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

The carrying value of other liabilities approximates their fair values.

The Group exposure to liquidity and currency risks related to other liabilities is disclosed in note 24.

22. PROVISIONS FOR CONTINGENCIES

	Provisions for warranties	Provisions for onerous contracts	Total
Balance at January 1, 2011	**7 696**	**130 114**	**137 810**
Provisions made during the period	1 562	22 266	23 828
Provisions used during the period	(7 586)	(52 506)	(60 092)
Provision released during the period	(204)	(8 822)	(9 026)
Foreign currency translation difference	(413)	(4 098)	(4 511)
Balance at December 31, 2011	**1 055**	**86 954**	**88 009**
Balance at January 1, 2012	**1 055**	**86 954**	**88 009**
Provisions made during the period	28	21 454	21 482
Provisions used during the period	(6 170)	(15 114)	(21 284)
Provision released during the period	-	(17 907)	(17 907)
Acquisition through business combination	8 226	7 348	15 574
Foreign currency translation difference	(121)	4 810	4 689
Balance at December 31, 2012	**3 018**	**87 545**	**90 563**

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

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

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

Provision for warranties

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

Provisions for onerous contracts

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

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

Litigation

The Group has a number of claims including contract related disputes for contract delays or additional work which have arisen in the ordinary course of business. Contract related disputes are common to the business of the Group, particularly for large, long-term contracts. Based on the facts and circumstances existing on the date of these consolidated financial statements, as well as historical experience with such claims and litigations, management estimates that possible losses associated with unresolved contract related disputes at December 31, 2012, may amount up to US$ 10.4 million (2011: US$ 7.5 million). No provision has been recognized in respect of these losses because management believes that it is possible, but not probable, that the losses would be actually incurred.

Other contingencies

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

23. EMPLOYEE BENEFITS

The Group has agreed to provide certain additional post employment benefits to employees. These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for an each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the income statement and other comprehensive income over the period.

Net Benefit Expense	**2012**
Current service cost	(109)
Interest cost	(349)
Past Service Cost	80
Net actuarial gain recognized in the period	991
FX difference	(2)
	611

Benefit Asset/Liability	**2012**
Benefit obligation (PV per actuarial valuation)	3 744
Plan assets	-
Unrecognized net actuarial (gains)/losses	-
Unrecognized past service cost	319
FX difference	43
Benefit (asset)/liability – non-current	**4 106**

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

Movements in the benefit obligation	**2012**
Acquired through business combination	4 434
Interest cost on benefit obligation	349
Current service cost	109
Past service cost	-
Benefits paid	(268)
Actuarial (gains)/losses on obligation	(991)
FX difference	111
As at December 31	**3 744**

Main Actuarial Assumptions	**2012**
Discount Rate	8.00%
Wage Growth Rate	7.50%
Inflation Rate	6.00%

24. FINANCIAL RISK MANAGEMENT

Risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

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

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

Concentration risk

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

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

Foreign currency risk

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

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

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

	US Dollar		**Euro**	
Assets	**2012**	**2011**	**2012**	**2011**
Trade and other receivables	96 032	88 660	64 315	59 472
Loans issued	29 048	-	-	-
Deposits	129 020	59 415	-	-
Cash and cash equivalents	23 006	39 130	10 587	14 327
Total assets	**277 106**	**187 205**	**74 902**	**73 799**
Liabilities				
Loans and borrowings	-	-	(80 539)	-
Trade and other payables	(41 243)	(31 045)	(38 730)	(19 608)
Total liabilities	**(41 243)**	**(31 045)**	**(119 269)**	**(19 608)**
Total net position	**235 863**	**156 160**	**(44 367)**	**54 191**

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

	US dollar impact		**Euro impact**	
	2012	**2011**	**2012**	**2011**
Increase in profit (all in US$)	23 586	15 616	(4 437)	5 419

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

Interest rate risk

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

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

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

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

	2012	**2011**
Fixed interest rate bearing assets	577 204	721 214
Variable interest rate bearing liabilities	5 570	6 338
Fixed interest rate bearing liabilities	379 939	601

Interest rate for fixed interest rate bearing assets is in the range of 3.5 - 8%.

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

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

	Libor impact	
	2012	**2011**
Increase in profit	56	63

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position and totals US$ 1 257.6 million (2011: US$ 1 227.3 million).

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances.

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

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

The Group makes loans to third parties. The carring amount of such loans totaled US$ 226.7 million as at December, 31 2012, see note 14. None of these loans are collateralized.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including geographic location, industry, aging profile, maturity and existence of previous financial difficulties. The Group manages credit exposures by seeking and obtaining advance payments from customers.

Liquidity risk

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

The Group's available bank facilities are disclosed in note 17.

The Group has contractual commitments to capital expenditure (see note 26).

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

At December 31, 2011

	Carrying amount	Contractual cash flow	Within one year	One to five years	Over five years
Trade accounts payable	135 498	135 498	135 498	-	-
Debt finance	6 939	7 660	570	7 090	-
Other liabilities	51 653	52 065	47 927	3 773	365
	194 090	**195 223**	**183 995**	**10 863**	**365**

At December 31, 2012

	Carrying amount	Contractual cash flow	Within one year	One to five years	Over five years
Trade accounts payable	252 330	252 330	252 330	-	-
Debt finance	385 509	488 707	188 614	288 152	11 941
Other liabilities	71 213	72 231	64 561	7 256	414
	709 052	**813 268**	**505 505**	**295 408**	**12 355**

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

25. SUBSIDIARIES AND ASSOCIATES

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

Name of company	Principal activity	Country of incorporation	Ownership interest 2012	Ownership interest 2011
Subsidiaries				
OAO Kaluzhsky Turbinny Zavod	Production of turbines	Russia	69.29%	69.29%
Power Machines de Mexico	Installation of energy equipment	Mexico	99.90%	99.90%
Power Machines (India) Limited	Installation of energy equipment	India	100.00%	100.00%
LMZ Energy Limited	Sales of energy equipment	Ireland	100.00%	100.00%
EMEC LTDa	Installation of energy equipment	Columbia	100.00%	100.00%
LLC Reostat	Production of electric engines	Russia	100.00%	100.00%
OJSC EMAlliance	Engineering and supply of power generating equipment	Russia	100.00%	-
OJSC TKZ Krasny Kotelshchik	Production of thermal power plant boilers	Russia	78.89%	-
OJSC Inzhiniringovy Tsentr EMAlliance BSKB KU	Engineering of boiler plants	Russia	74.00%	-
Duro Dakovic Termoenergetska postrojenja d.o.o. (Croatia)	Production of boiler and heat exchange equipment	Croatia	100.00%	-
LLC Power Machines-Development	Construction of real estate	Russia	100.00%	-

The following is financial information in respect of associates and joint venture:

	2012	2011
Current assets	213 737	12 098
Non-current assets	47 086	5 607
Short-term liabilities	102 719	6 234
Long-term liabilities	27 065	388
Equity	131 039	11 083

	2012	2011
Revenues	72 133	43 624
Net income	5 174	1 263

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

26. COMMITMENTS AND CONTINGENCIES

Long-term purchase contracts

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

Capital commitments

At the reporting date, the Group was committed to capital expenditure of approximately US$ 98.7 million (2011: US$ 83.5 million).

Guarantees

At the reporting date the Group had US$ 894.2 million (2011: US$ 633.9 million) of guarantees issued, there were no guarantees issued for related parties as at 31 December 2012 (2011: US$ 3.6 million).

Social commitments

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

Operating leases

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

	2012	**2011**
Payable within one year	1 312	1 200
Payable between one and five years	3 159	3 811
Payable after more than five years	28 506	35 798
	32 977	**40 809**

Insurance

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

Russian Federation tax and regulatory environment

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

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

Environmental liabilities

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

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

Volatility in financial markets

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

27. BUSINESS COMBINATION

On February 14, 2012 the Group acquired 100% of the issued share capital of Open Joint Stock Company "Energomashinostroitelny Alliance", one of the Russia's largest engineering companies producing power-generating equipment from a third party. The group is located in Taganrog, Rostov region, the Russian Federation.

The fair value of net assets at the acquisition date was determined by an independent appraiser.

The fair value of property, plant and equipment was primarily determined using depreciated replacement cost. The depreciated replacement cost was tested for economic obsolescence using a discounted cash flows projection.

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

The major assumptions used by the appraiser were as follows:

- cash flows were projected based on actual operating results for five years from 2007 to 2011 and a five year business plan, discounted at a post-tax rate of 16.60%;
- volume growth for 2012-2016 was based on Gross Domestic Product growth rate estimates of the Ministry of Economic Development of the Russian Federation;
- price growth was estimated to be in line with inflation forecasts of the Cenral Bank of the Russian Federation.

There were no significant adjustments made in the financial statements to the amounts provided in the appraiser's report.

A summary of assets and liabilities of OJSC "EMAlliance" on the date of acquisition is presented below:

Current assets:	
Cash and cash equivalents	28 353
Trade accounts receivable	78 833
Amounts due from customers under construction contracts	253 969
Advances paid to suppliers	51 417
Inventories	49 867
VAT recoverable	12 497
Other current assets	5 430
Non-current assets:	
Property, plant and equipment	231 318
Other intangible assets	53 168
Trade accounts receivable	23 515
Long-term financial investments	668
Other assets	882
Current liabilities:	
Debt finance	(139 030)
Trade accounts payable	(41 309)
Amounts due to customers under construction contracts	(10 188)
Advances received from customers	(304 289)
Other taxes and social security payable	(7 230)
Other liabilities	(19 793)
Provisions for contingencies	(15 574)
Non-current liabilities:	
Debt finance	(126 126)
Deferred tax liabilities	(37 617)
Other liabilities	(5 303)
Net identifiable assets, liabilities, and contingent liabilities	**83 458**
Non-controlling interest based on their proportionate interest in the recognised amounts of the assets and liabilities	(77 281)
Group's share of net assets acquired	6 177
Goodwill arising on acquisition	(308 800)
Consideration on escrow accounts	(34 444)
Consideration paid satisfied in cash	(280 533)
Cash acquired	28 353
Net cash outflow on acquisition	**(286 624)**

The trade and other receivables comprise gross contractual amounts due of US$ 136.3 million of which US$ 30.9 million was expected to be uncollectible at the acquisition date.

Goodwill is attributable mainly to the market position of acquiree (OJSC "EMAlliance" is one of the largest power machine-building groups) and the synergies expected to be achieved from integrating the company into the Group's existing business. The alliance of companies will enable to create a Russian producer of energy engineering production which will be able to compete on equal terms with leading foreign companies.Goodwill recognized is not deductible for income tax purposes.

Had this business combination been effected on January 1, 2012, the revenue of the Group for the year would have been US$ 2 122.8 million.

Revenue and profits earned by OJSC "EMAliance" and its subsidiaries from the date of acquisition to the reporting date were US$ 430.5 million and US$ 25.5 million respectively.

On April 12, 2012 the Group acquired an additional 10 000 000 preference shares (or 3.52% of total issued shares) of OJSC "Krasny Kotelschik" (a subsidiary of OJSC "EMAlliance") for cash consideration of US$ 3.5 million. The carrying value of OJSC "Krasny Kotelschik" net assets at the date of increase of ownership was US$ 202.0 million. As a result of this transaction, the Group recognized a decrease in the net assets attributable to the non-controlling interest of US$ 7.1 million.

On June 13, 2012 the Group acquired an additional 3 300 000 ordinary shares and 3 811 243 preference shares (or 2.5% of total issued shares) of OJSC "Krasny Kotelschik" for cash consideration of US$ 3.1 million. The carrying value of OJSC "Krasny Kotelschik" net assets at the date of increase of ownership was US$ 190.7 million. As a result of this transaction, the Group recognized a decrease in the net assets attributable to the non-controlling interest of US$ 4.8 million.

28. EVENTS AFTER REPORTING DATE

The Group is not aware of any material events subsequent to the reporting date which may impact or require disclosure in these consolidated financial statements as at the year ended December 31, 2012.