OJSC Power Machines and subsidiaries

Consolidated financial statements
For the Year Ended December 31, 2011

OJSC POWER MACHINES AND SUBSIDIARIES

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Independent Auditors' Report

Management Board of OJSC Power Machines

OJSC Power Machines

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Power Machines – ZTL, LMZ, Electrosila, Energomachexport" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG

March 7, 2012

OJSC POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011
(Tabular amounts in thousands of US dollars unless otherwise stated)

	Note	2011	2010
Revenue	4	1 702 856	1 674 621
Cost of sales		(1 133 250)	(1 183 203)
Gross profit		**569 606**	**491 418**
Distribution expenses		(77 183)	(75 892)
Administrative expenses		(105 311)	(85 715)
Other taxes and contributions		(9 871)	(13 851)
Share of profit of equity accounted investees (net of income tax)		-	3 681
Other income		5 504	11 570
Other expenses		(9 098)	(18 352)
Profit from operations		**373 647**	**312 859**
Impairment of non-current assets		(2 195)	-
Net other non-operating (expenses)		(4 549)	(5 905)
Profit before financing and taxation		**366 903**	**306 954**
Financial income	6	29 497	11 898
Financial expenses	6	(14 349)	(18 044)
Net foreign exchange losses		8 033	(495)
Profit before income tax		**390 084**	**300 312**
Income tax expense	7	(67 040)	(44 657)
Profit for the year		**323 044**	**255 655**
Attributable to:			
shareholders of OJSC Power Machines		316 841	246 876
non-controlling interests		6 203	8 779
		323 044	**255 655**
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)		0.0364	0.0283

These consolidated financial statements were approved by the Management Board on March 7, 2012 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 45.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011
(Tabular amounts in thousands of US dollars unless otherwise stated)

	2011	2010
Profit for the year	**323 044**	**255 655**
Other comprehensive income		
Currency translation differences	(62 059)	(4 470)
Total comprehensive income for the year	**260 985**	**251 185**
Attributable to:		
shareholders of OJSC Power Machines	257 983	243 361
non-controlling interests	3 002	7 824
	260 985	**251 185**

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 45.

CONSOLIDATED STATEMENT ON FINANCIAL POSITION AS AT DECEMBER 31, 2011

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

	Note	2011	2010
Assets			
Current assets			
Cash and cash equivalents	14	687 762	521 346
Short-term bank deposit		40 143	100 627
Trade accounts receivable	12	340 421	229 823
Amounts due from customers under construction contracts	8	834 590	973 995
Advances paid to suppliers		142 483	159 363
Advances paid to related parties		10 923	9 667
Inventories	11	187 854	168 614
VAT recoverable		63 517	79 054
Other current assets	13	44 653	32 843
Total current assets		**2 352 346**	**2 275 332**
Non-current assets			
Property, plant and equipment	9	544 733	475 329
Goodwill		3 492	3 689
Other intangible assets	10	55 368	43 655
Deferred tax assets	7	39 368	39 886
Trade accounts receivable	12	37 668	36 588
Trade accounts receivable from related parties		5 697	5 220
Long-term financial investments		21 464	3 329
Investments in related parties	19	72 610	4 111
Other assets	13	1 102	674
Total non-current assets		**781 502**	**612 481**
Total assets		**3 133 848**	**2 887 813**
Liabilities and shareholder's equity			
Current liabilities:			
Trade accounts payable	18	127 898	108 728
Amounts due to customers under construction contracts	8	41 781	20 935
Trade and other accounts payable to related parties	19	7 600	18 582
Advances received from customers	17	1 837 098	1 786 165
Debt finance	16	601	24 112
Other taxes and social security payable		34 337	17 648
Provisions for contingencies	21	88 009	137 810
Other liabilities	20	47 935	65 944
Total current liabilities		**2 185 259**	**2 179 924**
Non-current liabilities:			
Debt finance	16	6 338	14 994
Deferred tax liabilities	7	12 588	11 096
Other liabilities	20	3 718	2 515
Total non-current liabilities		**22 644**	**28 605**
Total liabilities		**2 207 903**	**2 208 529**
Equity:			
Share capital	15	11 141	11 141
Additional paid-in capital		400 025	400 025
Foreign currency translation reserve		(33 315)	25 543
Retained earnings		489 088	184 771
Total equity attributable to the Company's shareholders		**866 939**	**621 480**
Non-controlling interests		59 006	57 804
Total equity		**925 945**	**679 284**
Total equity and liabilities		**3 133 848**	**2 887 813**

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 45.

OJSC POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Tabular amounts in thousands of US dollars unless otherwise stated)

	2011	2010
Cash flows from operating activities:		
Profit before financing and taxation	366 903	306 954
Adjustments for:		
Depreciation and amortization	63 115	57 855
Change in provision for doubtful trade and other accounts receivable	5 145	(1 265)
Change in provision for obsolete inventories	(7 616)	4 145
Change in provisions for contingencies	(51 700)	(4 714)
Share of profit of equity accounted investees (net of income tax)	-	(3 681)
Other	6 236	(3 093)
Operating profit before changes in working capital and provisions	**382 083**	**356 201**
Changes in operating assets and liabilities		
Inventories	(27 140)	41 921
Amounts due from customers	61 343	(97 890)
Trade accounts receivable	(96 434)	47 231
Advances paid to suppliers	5 187	64 832
Advances paid to related parties	(380)	9 753
VAT recoverable	9 832	(11 322)
Trade accounts payable	9 300	(22 603)
Amounts due to customers under construction contracts	22 837	(4 111)
Trade and other accounts payable to related parties	(11 143)	(8 648)
Advances received from customers	133 577	84 470
Other taxes and social security payable	17 851	1 609
Other operating assets and liabilities	(12 160)	27 077
Cash flows from operations before income tax and interest paid	**494 753**	**488 520**
Interest paid	(14 228)	(14 147)
Income tax paid	(82 199)	(42 067)
Net cash from operating activities	**398 326**	**432 306**
Investing activities:		
Additions to property, plant and equipment and intangible assets	(177 852)	(126 356)
Net cash flow from deposits	43 334	(98 525)
Net cash flow from investing in related parties	(71 451)	-
Proceeds from disposal of property, plant and equipment and other assets	2 230	10 050
Interest received	16 268	6 335
Net cash used in investing activities	**(187 471)**	**(208 496)**
Financing activities:		
Proceeds from debt finance	133 138	32 993
Repayment of debt finance	(166 116)	(64 276)
Net cash used in financing activities	**(32 978)**	**(31 283)**
Net increase in cash and cash equivalents	177 877	192 527
Effect of exchange rates on cash and cash equivalents	(11 461)	5 130
Cash and cash equivalents at beginning of the year	521 346	323 689
Cash and cash equivalents at end of the year	**687 762**	**521 346**

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 45.

OJSC POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011
(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, 2009	**11 141**	**399 877**	**29 058**	**(62 105)**	**377 971**	**50 128**	**428 099**
Total comprehensive income for the year							
Profit for the year	-	-	-	246 876	246 876	8 779	255 655
Foreign currency translation differences	-	-	(3 515)	-	(3 515)	(955)	(4 470)
Total comprehensive income for the year	-	-	(3 515)	246 876	243 361	7 824	251 185
Transactions with owners recorded directly in equity							
Dilution of non-controlling interests	-	148	-	-	148	(148)	-
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**

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 45.

1. ORGANISATION AND OPERATIONS

The consolidated financial statements of OJSC Power Machines and subsidiaries comprise OJSC Power Machines (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 and other energy-generating equipment at plants located in Russia in St. Petersburg and Kaluga. During 2008 the Group acquired a controlling interest in OAO Kaluzhsky Turbinny Zavod (“KTZ”). 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 the largest immediate shareholder of the Company is Highstat Ltd. (95.6%). The ultimate controlling party of Highstat Ltd. is Mr Alexey A Mordashov.

2. BASIS OF PREPARATION

Statement of compliance

The financial statements of the Company are prepared in accordance with the legislative requirements of the Russian Federation. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), under the historical cost convention, except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs. The Group’s statutory financial records are maintained in accordance with the legislative requirements of the countries in which the individual entities are located, which differ in certain respects from IFRS. Consequently, those statutory financial statements have been restated according to International Financial Reporting Standards for the purpose of preparing these consolidated financial statements. 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 currency of the Group’s entities located in Western Europe is the EURO.

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.

Transactions in currencies other than the entities' functional currency (foreign currencies) are translated at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated to the functional currency at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation recognized in profit or loss.

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 consruction 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 9 – useful lives of property, plant and equipment;

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

- Note 10 – useful lives of intangible assets;
- Note 11 – provision for obsolete inventories;
- Note 12 – impairment of trade accounts receivable;
- Note 21 – provisions for contingencies;
- Note 24 – commitments and contingencies.

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 revenue and cost amounts related to investing or financing activities.

Prior year reclassifications

Certain comparative information, based on the consolidated financial statements for the year ended December 31, 2010 has been reclassified. Reclassifications were based upon management's decision to enhance disclosure of the Group's results of operations through better presentation. The effect of reclassifications is presented below:

	Before reclassification	After reclassification	Difference
Income statement:			
Other expenses	(24 257)	(18 352)	5 905
Net other non-operating (expenses)	-	(5 905)	(5 905)
			-

	Before reclassification	After reclassification	Difference
Statement of financial position:			
Non-current assets			
Trade accounts receivable	41 808	36 588	(5 220)
Trade accounts receivable from related parties	-	5 220	5 220
Long-term financial investments	-	3 329	3 329
Investments in related parties	-	4 111	4 111
Other assets	8 114	674	(7 440)
Total			-

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

Subsidiaries

Subsidiaries are those enterprises controlled by the Company. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases. The non-controlling interest represents the proportion of the net identifiable assets of the subsidiaries that are not attributable to the shareholders of the Company. 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.

Associates

Associated companies are those enterprises in which the Group has significant influence, but does not have 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. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of associated companies accounted for using the equity method, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associated company, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associated company.

Transactions eliminated on consolidation

Intra-group balances and transactions, which are conducted at open market prices, and any unrealized gains arising from intra-group transactions are eliminated in preparing these consolidated financial statements.

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). Goodwill is measured as the excess of the sum of fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any), over the net fair value of the acquisition date net identifiable assets, liabilities and contingent liabilities of the acquiree.

If, after the assessment, the Group's interest in the net fair value of the acquiree's identifiable net assets and contingent liabilities exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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.

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 does not provide separate post employment benefits for its employees. However, contained within the statutory social insurance contributions calculated on the gross salaries of its employees, the Group makes contributions on their behalf to the State Pension Fund of the Russian Federation. These contributions are expensed when employees have rendered services.

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 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.

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

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, net profit for the year, segment assets and segment liabilities and other information are consistent with that in the consolidated financial statements.

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 31 December 2011 is as follows:

	2011	**2010**
Revenue	1 702 856	1 674 621
Depreciation and amortization	63 115	57 855
Profit for the year	323 044	255 655

	2011	**2010**
Segment assets	3 133 848	2 887 813
Capital expenditures	177 852	126 356
Segment liabilities	2 207 903	2 208 529

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, 2011, 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 except for those discussed below.

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:

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

Standards and Interpretations	**Effective for annual periods beginning on or after**
IAS 1 (Amended) "Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income"	July 1, 2012
IAS 12 (Amended) "Income taxes"	January 1, 2012
IAS 19 (Amended) "Employee benefits"	July 1, 2013
IAS 27 (Amended) "Separate financial statements"	January 1, 2013
IAS 28 (Amended) "Investments in associates and joint ventures	January 1, 2013
IFRS 9 "Financial instruments"	January 1, 2015
IFRS 10 "Consolidated Financial Statements"	January 1, 2013
IFRS 11 "Joint arrangements"	January 1, 2013
IFRS 12 "Disclosure of interests in other entities"	January 1, 2013
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.

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

4. REVENUE

	2011	2010
Income from:		
Construction contract revenue	1 425 309	1 076 731
Sale of goods	144 498	495 595
Rendering services	114 878	72 114
Other	18 171	30 181
	1 702 856	**1 674 621**

	2011	2010
Russia	1 408 153	1 372 986
Europe	114 749	109 424
India	77 470	39 058
China and Central Asia	47 498	44 860
Central and South America	44 809	91 779
South-East Asia	1 378	3 349
Other	8 799	13 165
	1 702 856	**1 674 621**

5. STAFF COSTS

	2011	2010
Wages, salaries and related taxes included in:		
cost of sales	265 930	190 761
administrative expenses	50 437	46 920
distribution costs	24 772	24 073
	341 139	**261 754**

Included in the above employment costs are amounts paid to key management personnel during the year of US$ 16.1 million (2010: US$ 11.4 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, 2011 was 15 492 (2010: 16 277).

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

6. FINANCIAL INCOME AND EXPENSES

	2011	2010
Financial income		
Interest income	29 497	11 898
	29 497	**11 898**
Financial expenses		
Interest expense	1 488	7 025
Bank guarantee expenses	10 554	9 037
Bank charges	2 307	1 982
	14 349	**18 044**

7. INCOME TAX EXPENSE/(BENEFIT)

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

	2011	2010
Current tax expense	66 583	51 235
Deferred tax expense/(benefit)	457	(6 578)
	67 040	**44 657**

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/(benefit) recorded in the Group's consolidated income statement:

	2011	2010
Profit before income taxes	390 084	300 312
Income tax benefit using corporate tax rate 20%	78 017	60 063
Non-deductible expenses	1 630	7 713
Non-taxable income	(4 191)	(793)
Change in non-recognized deferred tax assets	-	(14 632)
Effect of tax concessions	(8 416)	(7 694)
Tax expense	**67 040**	**44 657**

(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:

	2011	2010
Deferred tax assets		
Provisions	13 294	24 385
Inventories	23 276	30 437
Trade and other accounts receivable	18 624	-
Trade and other accounts payable	6 095	5 841
	61 289	**60 663**
Less: non-recognized deferred tax assets	-	-
Less: offset against deferred tax liabilities	(21 921)	(20 777)
	39 368	**39 886**
Deferred tax liabilities		
Property, plant and equipment	(22 193)	(22 326)
Intangible assets	(985)	(4 560)
Investments	(690)	(679)
Trade and other accounts receivable	(10 641)	(4 308)
	(34 509)	**(31 873)**
Less: offset against deferred tax assets	21 921	20 777
	(12 588)	**(11 096)**
Net deferred tax assets	**26 780**	**28 790**

Movement in deferred income tax for the year was as follows:

	2011	2010
Opening balance	28 790	21 984
Benefit recognised during the year	(457)	6 578
Foreign exchange gains/(losses)	(1 553)	228
Closing balance	**26 780**	**28 790**

Taxable differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to US$ 27.4 million at December 31, 2011 (December 31, 2010: US$ 22.5 million).

8. CONSTRUCTION CONTRACTS

Contracts in progress at the reporting date:

	2011	2010
Construction costs incurred plus recognized profits less recognized losses	4 564 872	3 670 067
Less: progress billings	(3 772 063)	(2 717 007)
	792 809	**953 060**

Recognised and included in the financial statements as amounts due:

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

	2011	**2010**
From customers under construction contracts	834 590	973 995
To customers under construction contracts	(41 781)	(20 935)
	792 809	**953 060**

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, 2010	**417 255**	**810 557**	**15 233**	**64 728**	**49 752**	**1 357 524**
Additions	-	406	456	145	107 525	108 532
Transfers	5 973	40 698	369	9 090	(56 129)	-
Disposals	(1 911)	(7 125)	(1 227)	(1 392)	(1 300)	(12 956)
Foreign currency translation difference	(2 989)	(6 312)	(60)	(494)	(432)	(10 288)
At December 31, 2010	**418 327**	**838 223**	**14 770**	**72 077**	**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**	**8 840**	**66 624**	**200 857**	**1 478 945**
Depreciation						
At January 1, 2010	**(273 013)**	**(607 309)**	**(12 491)**	**(41 152)**	**-**	**(933 965)**
Charge for the year	(6 446)	(34 053)	(1 273)	(8 393)	-	(50 165)
Disposals	323	6 581	1 115	1 268	-	9 287
Foreign currency translation difference	2 096	4 871	52	338	-	7 357
At December 31, 2010	**(277 039)**	**(629 910)**	**(12 598)**	**(47 938)**	**-**	**(967 485)**
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	11 651	-	40 379
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)**
Net book value						
At January 1, 2010	**144 242**	**203 248**	**2 742**	**23 576**	**49 752**	**423 560**
At December 31, 2010	**141 288**	**208 314**	**2 173**	**24 140**	**99 414**	**475 329**
At December 31, 2011	**135 008**	**182 889**	**1 958**	**24 019**	**200 857**	**544 733**

Within the category "Land and buildings" above the carrying value of land is US$ 13.5 million (2010: US$ 8.3 million).

At the reporting date property, plant and equipment with a carrying amount of US$ 23.4 million (2010: US$ 34.4 million) have been pledged to secure borrowings and bank guarantees of the Group (see note 16).

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

Leased machinery

The Group leases production equipment and vehicles under a number of finance lease agreements. As at December 31, 2011 the net carrying amount of leased machinery and transportation equipment was US$ 0.4 million (2010: US$ 4.7 million).

10. INTANGIBLE ASSETS

The movements in intangible assets are as follows:

	Development projects		Other intangible assets	
	Completed	**In process**		**Total**
Cost				
At January 1, 2010	**20 247**	**16 180**	**19 187**	**55 614**
Additions	4 442	9 109	4 413	17 964
Transfers	298	(310)	12	-
Disposals	-	(219)	(1 309)	(1 527)
Foreign currency translation difference	10	(330)	(138)	(458)
At December 31, 2010	**24 996**	**24 431**	**22 165**	**71 592**
Additions	3 099	20 453	7 924	31 476
Transfers	338	(4 080)	3 742	-
Disposals	(730)	(6 902)	(3 060)	(10 691)
Foreign currency translation difference	(1 168)	(2 287)	(1 509)	(4 965)
At December 31, 2011	**26 535**	**31 615**	**29 262**	**87 412**
Amortization				
At January 1, 2010	**(12 592)**	**-**	**(9 299)**	**(21 891)**
Charge for the year	(4 786)	-	(2 904)	(7 690)
Disposals	-	-	1 554	1 554
Foreign currency translation difference	119	-	(29)	89
At December 31, 2010	**(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)**
Net book value				
At January 1, 2010	**7 655**	**16 180**	**9 888**	**33 723**
At December 31, 2010	**7 737**	**24 431**	**11 486**	**43 655**
At December 31, 2011	**7 591**	**31 615**	**16 162**	**55 368**

The total amount of research and development expenditure recognised as an expense during 2011 was US$ 0.4 million (2010: US$ 0.1 million).

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

11. INVENTORIES

	2011	2010
Raw materials and consumables	95 359	87 509
Work in progress	77 152	63 365
Finished goods and goods for resale	62 522	76 609
Supplies	3 817	5 835
	238 850	233 318
Provision for obsolete inventories	(50 996)	(64 704)
	187 854	**168 614**

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:

	2011	2010
Opening balance	(64 704)	(62 091)
Change in provision recognized in income statement	7 616	(4 145)
Amounts written off against provisions	2 749	1 084
Foreign exchange difference	3 343	448
Closing balance	**(50 996)**	**(64 704)**

Cost of inventories recognised as an expense during 2011 was US$ 714.7 million (2010: US$ 811.1 million).

12. TRADE ACCOUNTS RECEIVABLE

	2011	2010
Current trade accounts receivable, net		
Contract retentions billed to customers	102 313	121 893
Other trade accounts receivable	249 905	119 513
Impairment provision for doubtful trade accounts receivable	(11 797)	(11 583)
	340 421	**229 823**
Non-current trade accounts receivable, net		
Contract retentions billed to customers	37 179	30 039
Other trade accounts receivable	489	6 549
	37 668	**36 588**
Net total trade accounts receivable	**378 089**	**266 411**

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

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

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 24, as a result of recent economic turmoil in capital and credit markets globally, and the consequential economic uncertainties existing at December 31, 2011, 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, 2011.

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:

	2011	**2010**
Opening balance	(11 583)	(13 576)
Change in provision recognized in income statement	(5 145)	1 265
Amounts written off against provisions	4 409	1 191
Foreign exchange difference	522	(463)
Closing balance	**(11 797)**	**(11 583)**

Trade accounts receivable are denominated in the following currencies:

	2011	**2010**
Roubles	226 105	110 901
US dollars	88 660	106 608
Euros	51 942	37 046
Other	11 382	11 856
	378 089	**266 411**

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**	
	2011	**2010**	**2011**	**2010**
0-10,000	454	356	101 674	108 390
10,000-20,000	7	8	95 622	110 144
20,000-100,000	5	2	180 793	47 877
			378 089	**266 411**

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

Region	**Number of customers**		**Total receivables**	
	2011	**2010**	**2011**	**2010**
Russia	10	11	225 636	114 509
India	3	3	38 945	53 676
Vietnam	1	1	20 884	18 823
Mexico	1	1	11 937	4 563
Iran	1	1	5 455	3 974
China	2	1	4 054	7 127
Croatia	-	1	-	6 663
Finland	-	1	-	3 931
Other (0-10,000 kUSD)	448	346	71 178	53 145
			378 089	**266 411**

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:

	2011		**2010**	
	Gross	**Impairment**	**Gross**	**Impairment**
Not past due	334 740	(1)	197 029	(3 646)
Past due 0-30 days	4 739	(299)	2 497	-
Past due 31-90 days	5 034	-	5 451	-
Past due 91-180 days	3 354	-	19 204	(259)
Past due 181-365 days	3 890	(36)	42 639	(2 417)
Past due more than 365 days	38 129	(11 461)	11 174	(5 261)
	389 886	**(11 797)**	**277 994**	**(11 583)**

The amount of US$ 21 million past due more than 365 days is attributable to one customer in respect of which management assesses the probability of payment as high. In accordance with this assessment no provision with regard to the respective receivable balance was created.

The Group exposure to credit and currency risks related to trade and other receivables is disclosed in note 22.

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

13. OTHER ASSETS

	2011	2010
Other receivables	32 282	21 808
Less provision for other receivables	(597)	(673)
	31 685	**21 135**
Deferred expenses	14 070	12 382
	45 755	**33 517**

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 22.

14. CASH AND CASH EQUIVALENTS

	2011	2010
Bank accounts	72 581	161 297
Bank deposits	615 181	360 049
	687 762	**521 346**

Cash and cash equivalents are denominated in the following currencies:

	2011	2010
Roubles	624 679	420 903
US dollars	39 282	69 765
Euros	14 327	25 788
Other	9 474	4 890
	687 762	**521 346**

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.

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 22.

15. EQUITY

Share capital

Number of ordinary shares	**2011**	**2010**
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**

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

At the reporting date the Company's authorised share capital comprised 9,359,450,000 ordinary shares (2010: 9,359,450,000) of which 8,708,938,708 ordinary shares (2010: 8,708,938,708 ordinary shares) were issued and fully paid. All shares have a par value of RUR 0.01 (2010: RUR 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:

	Statement of financial position		Income statement	
	2011	2010	2011	2010
US dollar	32.1961	30.4769	29.3874	30.3690
Indian Rupee	53.266	44.8100	46.6596	45.7311
Euro	0.7726	0.7556	0.7188	0.7537

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$ 754.6 million (2010: US$ 492.9 million).

16. DEBT FINANCE

The carrying value of the Group's interest bearing bank financing is as follows:

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

	2011	2010
Bank finance:		
-secured	6 718	19 496
-unsecured	-	19 152
Finance lease liability	221	458
	6 939	**39 106**

Maturity analysis of debt finance is as follows:

	2011	2010
Within one year	601	24 112
Between one and five years	6 338	14 994
	6 939	**39 106**

Debt finance is denominated in the following currencies:

	2011	2010
Roubles	6 939	24 115
US dollars	-	12 752
Euros	-	2 239
	6 939	**39 106**

For more information about the Group's exposure to interest rate, foreign currency and liquidity risk see note 22.

At the reporting date, debt finance carries either fixed interest rates of 8.8% 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 the Group had US$ 184.9 million (December 31, 2010: US$ 156.5 million) of unused credit lines available to it.

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

	2011	2010
Inventories and amounts due from customers under construction contracts	788	66 435
Revenue from planned supply of equipment in the future	-	12 727
Property, plant and equipment	23 422	34 384
	24 210	**113 546**

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

	2011	2010
Pledged in respect of debt finance	5 583	27 031
Pledged in respect of bank guarantees received	18 627	86 515
	24 210	**113 546**

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

17. ADVANCES RECEIVED FROM CUSTOMERS

	2011	2010
In respect of construction contracts in progress	1 718 815	1 590 086
Other advances	118 283	196 079
	1 837 098	**1 786 165**

18. TRADE ACCOUNTS PAYABLE

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

Trade accounts payable are denominated in the following currencies:

	2011	2010
Roubles	69 551	62 294
US dollars	31 033	17 573
Euros	18 905	17 542
Other	8 409	11 319
	127 898	**108 728**

The Group exposure to liquidity and currency risks related to trade accounts payable is disclosed in note 22.

19. TRADE AND OTHER PAYABLES TO RELATED PARTIES

All transactions with related parties were entered into on an arm’s length basis. Trade balances are settled on normal trading terms.

Revenue from related parties for the year ended December, 2011 was US$ 2.2 million (2010: US$ 1.3 million).

The total amount of investments in related parties consists of loans issued of US$ 46.6 million and investments in shares of associates of US$ 26.0 million (2010: US$ 4.1 million).

The amount of trade and other accounts payable to related parties is as follows:

	2011	2010
Advances received from customers	604	944
Trade and other payables	6 996	17 638
	7 600	**18 582**

The amount of purchases from related parties is as follows:

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

	2011	2010
Purchases of goods	74 912	115 213
Purchases of services	18 851	18 078
Purchases of services, related to construction in progress	1 091	660
	94 854	**133 951**

The Group exposure to liquidity and currency risks related to trade and other payables to related parties is disclosed in note 22.

20. OTHER LIABILITIES

	2011	2010
Employee related liabilities	36 072	31 626
Other liabilities	15 581	36 833
	51 653	**68 459**

Maturity analysis:

	2011	2010
Within one year	47 935	65 944
Between one and five years	3 718	2 515
	51 653	**68 459**

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 22.

21. PROVISIONS FOR CONTINGENCIES

	Provisions for warranties	Provisions for onerous contracts	Total
Balance at January 1, 2010	7 316	136 067	143 383
Provisions made during the year	2 649	26 127	28 776
Provisions used during the year	(2 193)	(26 447)	(28 640)
Provision released during the year	-	(4 850)	(4 850)
Foreign currency translation difference	(76)	(783)	(859)
Balance at December 31, 2010	**7 696**	**130 114**	**137 810**
Provisions made during the year	1 562	22 266	23 828
Provisions used during the year	(7 586)	(52 506)	(60 092)
Provision released during the year	(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**

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.

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, 2011, may amount up to US$ 7.5 million (2010: US$ 18.9 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.

22. 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

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

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.

Foreign currency risk

The Group incurs currency risk when an entity enters into transactions and balances not denominated in its functional currency and functional currencies 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	**2011**	**2010**	**2011**	**2010**
Trade and other receivables	88 660	106 608	51 942	42 266
Cash and cash equivalents	39 282	69 765	14 327	25 788
Total assets	**127 942**	**176 373**	**66 269**	**68 054**
Liabilities				
Loans and borrowings	-	(12 752)	-	(2 239)
Trade and other payables	(31 045)	(17 573)	(19 608)	(30 491)
Total liabilities	**(31 045)**	**(30 325)**	**(19 608)**	**(32 730)**
Total net position	**96 897**	**146 048**	**46 661**	**35 324**

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

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**	
	2011	**2010**	**2011**	**2010**
Increase in profit (all in USD)	9 690	14 605	4 666	3 532

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.

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:

	2011	**2010**
Fixed interest rate bearing assets	674 624	463 342
Variable interest rate bearing liabilities	6 338	21 220
Fixed interest rate bearing liabilities	601	17 886

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	
	2011	**2010**
Increase in profit	63	212

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

Credit risk

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$ 1 227.3 million (2010: US$ 999.8 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.

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 16.

The Group has contractual commitments to capital expenditure (see note 24).

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, 2010

	Carrying amount	Contractual cash flow	Within one year	One to five years	Over five years
Trade accounts payable	108 728	108 728	108 728	-	-
Trade and other payables to related parties	18 582	18 582	18 582	-	-
Debt finance	39 106	43 248	27 139	16 109	-
Other liabilities	62 459	62 744	59 944	2 800	-
	228 875	**233 302**	**214 393**	**18 909**	**-**

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

At December 31, 2011

	Carrying amount	Contractual cash flow	Within one year	One to five years	Over five years
Trade accounts payable	127 898	127 898	127 898	-	-
Trade and other payables to related parties	7 600	7 600	7 600	-	-
Debt finance	6 939	7 661	570	7 090	-
Other liabilities	51 653	52 066	47 927	3 773	365
	194 090	**195 225**	**183 995**	**10 863**	**365**

23. SUBSIDIARIES AND ASSOCIATES

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

Name of company	Principal activity	Country of incorporation	Ownership interest 2011	Ownership interest 2010
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%	99.99%
LLC Reostat	Production of electric engines	Russia	100.00%	100.00%

Disposal of subsidiary

On December 1, 2012 the Group disposed of its investment in OOO Interturbo. The subsidiary contributed $US 1.0 million to the net profit for the year, a gain on its disposal comprised $US 1.9 million.

The disposal of the subsidiary did not have a material effect on the Group's assets and liabilities at the date of disposal.

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

The following is financial information in respect of associates:

	2011	2010
Current assets	12 098	11 711
Non-current assets	5 607	4 953
Short-term liabilities	6 234	4 921
Long-term liabilities	388	1 229
Equity	11 083	10 514

	2011	2010
Revenues	43 624	37 741
Net income	1 263	2 053

24. 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$ 83.5 million (2010: US$ 132.7 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.

Financial guarantees

The Group has not provided any material financial guarantees for third party suppliers of the Group.

Operating leases

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

	2011	2010
Payable within one year	1 200	867
Payable between one and five years	3 811	3 469
Payable after more than five years	35 798	38 712
	40 809	**43 048**

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.

25. EVENTS AFTER REPORTING DATE

On February 14, 2012, the Group acquired 1 601 000 000 ordinary shares representing 100% of the issued share capital of Public Joint Stock Company «Energomashinostroitelny Alliance» (PJSC «EMAlliance»), one of Russia's largest power machine building groups, for a cash consideration. The group has global experience and competence in the manufacture and supply of power generating equipment and is located in Taganrog, Rostov region, Russian Federation.

The Group has not yet determined the acquisition fair value of identifiable assets and liabilities assumed in this business combination.