Open Joint Stock Company
Obyedinenniye Mashinostroitelniye Zavody
(Uralmash-Izhora Group)

International Financial Reporting Standards
Consolidated Financial Statements and
Auditors' Report

31 December 2012

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AUDITORS' REPORT

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Auditors' Report

To the Shareholders and Board of Directors of Open Joint Stock Company Obyedinenniye Mashinostroitelniye Zavody (Uralmash-Izhora Group)

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Obyedinenniye Mashinostroitelniye Zavody (Uralmash-Izhora Group) (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Audited entity: Open Joint Stock Company Obyedinenniye Mashinostroitelniye Zavody (Uralmash-Izhora Group)

Registered by Administration of Ordzhonikidzevskiy rayion of Ekaterinburg on 10 August 2000, Registration No. 05512 serial number II-ОИ.

Entered in the Unified State Register of Legal Entities on 17 September 2002 by Inspectorate MNS of Russia in Ordjonikidzevskyi rayon of Ekaterinburg, Registration No. 1026605610800, Certificate series 66 No. 003020489.

Address of audited entity: 20, building 2, Ovchinnikovskaya naberezhnaya, Moscow, 115324

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

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

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

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

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

Opinion

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

Emphasis of Matter

In our report dated 27 April 2012, we expressed an opinion on the Group's consolidated financial statements as at and for the year ended 31 December 2011 that was qualified for the effect of such adjustments, if any, that might have been determined to be necessary had we been able to obtain sufficient appropriate audit evidence in relation to the recoverability of the Group's investment in an available-for-sale investment with a carrying amount of USD 29 516 thousand and USD 31 180 thousand as at 31 December 2011 and 31 December 2010, respectively.

Since that date, management has obtained the required information and has adjusted the carrying amount of the available-for-sale investment in the corresponding figures as described in Note 2 to the consolidated financial statements. As part of our audit of the 2012 consolidated financial statements, we have audited the adjustments that were applied to restate the corresponding figures. In our opinion, such adjustments are appropriate and have been properly applied.

Kolyadko E.G., Director (power of attorney dated 3 October 2011 No. 36/11)

ZAO KPMG

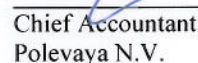
22 April 2013

Moscow, Russian Federation

	Note	31 December 2012	31 December 2011 Restated	1 January 2011 Restated
ASSETS				
Current assets:				
Cash and cash equivalents	9	58 603	38 346	176 057
Trade and other receivables	10	349 856	369 848	324 316
Advances to suppliers	10	136 906	105 482	87 944
Income tax receivable		5 768	7 768	7 725
Inventories	11	210 950	219 439	200 356
Other current financial assets	12	112 523	19 905	143 199
Total current assets		**874 606**	**760 788**	**939 597**
Non-current assets:				
Property, plant and equipment	13	473 350	307 058	339 386
Intangible assets	14	32 573	28 889	32 511
Deferred tax assets	27	8 338	13 825	24 043
Other non-current financial assets	15	8 092	8 759	75 029
Other non-current assets	16	1 737	1 924	19 130
Total non-current assets		**524 090**	**360 455**	**490 099**
Total assets		**1 398 696**	**1 121 243**	**1 429 696**
LIABILITIES				
Current liabilities:				
Trade and other payables	17	473 021	555 496	532 492
Provisions for liabilities and charges	28	29 380	32 383	43 170
Short-term borrowings	18	244 722	142 428	268 184
Income tax payable		1 271	1 692	3 836
Total current liabilities		**748 394**	**731 999**	**847 682**
Non-current liabilities:				
Long-term borrowings	18	226 819	98 565	193 522
Deferred tax liabilities	27	18 795	7 002	9 564
Provisions for liabilities and charges	28	3 198	2 874	2 270
Other long-term liabilities	19	25 244	6 700	5 612
Total non-current liabilities		**274 056**	**115 141**	**210 968**
Total liabilities		**1 022 450**	**847 140**	**1 058 650**
EQUITY				
Equity and reserves attributable to the Company's equity holders:				
Share capital	20	383	361	382
Share premium		95 089	89 704	94 763
Treasury shares	20	(40 660)	(38 357)	(40 520)
Hedging reserve		-	(150)	1 326
Currency translation reserve		18 969	21 756	16 083
Retained earnings		196 520	125 726	181 736
Equity attributable to owners of the Company		**270 301**	**199 040**	**253 770**
Non-controlling interests		105 945	75 063	117 276
Total equity		**376 246**	**274 103**	**371 046**
Total liabilities and equity		**1 398 696**	**1 121 243**	**1 429 696**

These consolidated financial statements were approved by management on 22 April 2013 and were signed on its behalf by:

Chief Executive Officer
Mohibog I.Y.



Chief Accountant
Polevaya N.V.

The accompanying notes on pages 6-58 are an integral part of these consolidated financial statements

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Sales	21	969 905	944 950
Cost of sales	22	(703 657)	(791 803)
Gross profit		**266 248**	**153 147**
Selling expenses	23	(36 608)	(27 696)
General and administrative expenses	24	(97 041)	(88 758)
Other operating income	25	8 547	5 980
Other operating expense	25	(11 264)	(63 792)
Operating profit/(loss)		**129 882**	**(21 119)**
Finance income	26	10 570	22 589
Finance expense	26	(28 585)	(68 904)
Profit/(loss) before taxation		**111 867**	**(67 434)**
Income tax expense	27	(27 430)	(18 056)
Profit/(loss) for the year		**84 437**	**(85 490)**
Other comprehensive income			
Foreign currency translation differences		17 554	(9 913)
Cash flow hedges, net of income tax		152	(1 540)
Other comprehensive income for the year, net of income tax		**17 706**	**(11 453)**
Total comprehensive income for the year		**102 143**	**(96 943)**
Profit/(loss) for the year attributable to:			
Equity holders of the Company		58 060	(47 367)
Non-controlling interests		26 377	(38 123)
Profit/(loss) for the year		**84 437**	**(85 490)**
Comprehensive income for the year attributable to:			
Equity holders of the Company		71 261	(55 883)
Non-controlling interests		30 882	(41 060)
Total comprehensive income for the year		**102 143**	**(96 943)**
Earnings per share attributable to the equity holders of the Company (in US dollars)			
- basic	30	1,8772	(1,5315)
- diluted	30	1,8772	(1,5315)

The accompanying notes on pages 6-58 are an integral part of these consolidated financial statements

	Note	Year ended 31 December 2012
Cash flows from operating activities:		
Profit before taxation		111 867
Adjustments for:		
Depreciation and amortization	13,14	37 499
Change in provisions for impairment and other provisions		(7 763)
Impairment of property, plant and equipment and intangible assets	25	2 066
Gain on disposal of property, plant and equipment	25	(4 614)
Loss on disposal of intangible assets	25	312
Gain from derecognition of financial liability	25	(249)
Net finance costs adjusted for foreign exchange differences	26	18 527
Net foreign exchange loss	26	1 932
Operating cash flows before working capital changes		**159 577**
Change in trade and other receivables and advances to suppliers		30 417
Change in inventories		11 824
Change in trade, other accounts payable, advances received and provisions		(106 514)
Cash provided from operations		**95 304**
Income taxes paid		(8 857)
Net cash provided from operating activities		**86 447**
Cash flows from investing activities:		
Purchase of property, plant and equipment and intangible assets		(167 124)
Proceeds from sale property, plant and equipment and intangible assets		2 424
Interest received		5 378
Net loans issued		(90 529)
Net cash used in investing activities		**(249 851)**
Cash flows from financing activities:		
Proceeds from borrowings		833 453
Repayment of borrowings		(620 309)
Interest paid		(30 837)
Net cash provided from financing activities		**182 307**
Net increase in cash and cash equivalents		**21 560**
Effect of exchange rate changes on cash and cash equivalents		2 657
Cash and cash equivalents at the beginning of the year	9	**36 795**
Cash and cash equivalents at the end of the year	9	**58 355**

The accompanying notes on pages 6-58 are an integral part of these consolidated financial statements

	Note	Year ended 31 December 2011
Cash flows from operating activities:		
Loss before taxation		(67 434)
Adjustments for:		
Depreciation and amortization	13,14	45 362
Change in provisions for impairment and other provisions		36 580
Impairment of property, plant and equipment and intangible assets	25	51 326
Gain on disposal of property, plant and equipment	25	(2 350)
Loss on disposal of intangible assets	25	199
Gain from accounts payable write-off	25	(1 961)
Net finance costs adjusted for foreign exchange differences	26	32 704
Net foreign exchange/ loss	26	1 864
Gain from disposal of investments under structured transaction	18	(14 403)
Other non-cash changes		(1 713)
Operating cash flows before working capital changes		**80 174**
Change in trade and other receivables and advances to suppliers		(118 882)
Change in inventories		(34 123)
Change in trade, other accounts payable, advances received and provisions		62 593
Cash used in operations		**(10 238)**
Income taxes paid		(13 019)
Net cash used in operating activities		**(23 257)**
Cash flows from investing activities:		
Purchase of property, plant and equipment and intangible assets		(84 537)
Proceeds from sale property, plant and equipment and intangible assets		5 167
Acquisition of financial assets		(50)
Interest received		5 149
Net proceeds from loans issued		15 681
Net cash used in investing activities		**(58 590)**
Cash flows from financing activities:		
Proceeds from borrowings		920 281
Repayment of borrowings		(956 214)
Interest paid		(24 492)
Net cash used in financing activities		**(60 425)**
Net decrease in cash and cash equivalents		**(142 272)**
Effect of exchange rate changes on cash and cash equivalents		3 010
Cash and cash equivalents at the beginning of the year	9	**176 057**
Cash and cash equivalents at the end of the year	9	**36 795**

For significant non-cash transactions refer to Note 18.

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Treasury shares**	**Hedging reserve**	**Currency translation reserve**	**Retained earnings**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2011 (as previously reported)	**382**	**94 763**	**(40 520)**	**1 326**	**16 083**	**212 916**	**117 276**	**402 226**
Restatement (Notes 2 and 15)	**-**	**-**	**-**	**-**	**-**	**(31 180)**	**-**	**(31 180)**
Balance as at 1 January 2011 (restated)	**382**	**94 763**	**(40 520)**	**1 326**	**16 083**	**181 736**	**117 276**	**371 046**
Loss for the year	-	-	-	-	-	(47 367)	(38 123)	(85 490)
Other comprehensive income:								
Currency translation difference	(21)	(5 059)	2 163	64	5 673	(9 796)	(2 937)	(9 913)
Cash flow hedges, net of tax	-	-	-	(1 540)	-	-	-	(1 540)
Total comprehensive income for the year ended 31 December 2011	**(21)**	**(5 059)**	**2 163**	**(1 476)**	**5 673**	**(57 163)**	**(41 060)**	**(96 943)**
Changes in ownership interests in subsidiaries that do not result in a loss of control:								
Dilution of non-controlling interest as a consequence of equity transactions between subsidiaries (Note 32)	-	-	-	-	-	1 153	(1 153)	-
Total changes in ownership interests in subsidiaries that do not result in a loss of control for the year ended 31 December 2011	**-**	**-**	**-**	**-**	**-**	**1 153**	**(1 153)**	**-**
Balance as at 31 December 2011 (restated)	**361**	**89 704**	**(38 357)**	**(150)**	**21 756**	**125 726**	**75 063**	**274 103**
Profit for the year	-	-	-	-	-	58 060	26 377	84 437
Other comprehensive income:								
Foreign currency translation differences	22	5 385	(2 303)	(2)	(2 787)	12 734	4 505	17 554
Cash flow hedges, net of tax	-	-	-	152	-	-	-	152
Total comprehensive income for the year ended 31 December 2012	**22**	**5 385**	**(2 303)**	**150**	**(2 787)**	**70 794**	**30 882**	**102 143**
Balance as at 31 December 2012	**383**	**95 089**	**(40 660)**	**-**	**18 969**	**196 520**	**105 945**	**376 246**

1. The OMZ Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012. These consolidated financial statements incorporate the operations of Open Joint Stock Company Obyedinenniye Mashinostroitelniye Zavody (Uralmash-Izhora Group) (the "Company") and its subsidiaries (together referred to as the "Group" or "OMZ").

Open Joint Stock Company Obyedinenniye Mashinostroitelniye Zavody (Uralmash-Izhora Group) was incorporated as an open joint stock company in Ekaterinburg, the Russian Federation in 1996 and was established in accordance with Russian regulations. OMZ's principal subsidiaries are disclosed in Note 31. These are incorporated under the Laws of the Russian Federation and the Czech Republic. For details of changes in the Group structure during 2012 refer to Note 32.

Principal activities. The Group operates in the following industries and countries: production of nuclear power plant equipment in the Russian Federation and in the Czech Republic, production of speciality steels, manufacturing of machinery and mining equipment in the Russian Federation.

Registered address.

The Company's current registered address is:

Russian Federation
Moscow
Ovchinnikovskaya nab., 20 building 2

Operating environment of the Group. The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation and the Czech Republic.

Russian Business Environment. The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic situation in the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

2. Basis of Preparation

Statement of compliance. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of measurement. The consolidated financial statements are prepared on the historical cost basis except for:

- derivative financial instruments, stated at fair value;
- the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, GosKomStat. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

Functional currency. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency for the Group's subsidiaries located in Russia is the national currency of the Russian Federation, the Russian Rouble ("RR"). The functional currency for the Group's subsidiaries located in the Czech Republic is the national currency of the Czech Republic, the Czech Koruna ("CZK").

Presentation currency. These consolidated financial statements are presented in US Dollars ("US$") as management believes this is more convenient for users. All financial information has been rounded to the nearest thousand unless otherwise stated.

Foreign currency transactions. Transactions denominated in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into each entity's functional currency at exchange rates at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recognised in other comprehensive income. 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.

Translation from functional to presentation currency. The results and financial position of each group entity (none of which have a functional currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities are translated into US$ at the exchange rate at the reporting date;

(ii) income and expenses for each statement of comprehensive income are translated into US $ at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised directly in other comprehensive income and presented in the currency translation reserve.

Foreign operations located in the Czech Republic with the functional currency CZK are first translated into RR and then further translated into the presentation currency US$. The assets and liabilities of foreign operations are translated to RR at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RR at the exchange rates at the dates of the transactions. Foreign currency differences arising from translation of CZK to RR are recognised in other comprehensive income, and presented in the currency translation reserve in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the exchange rates at the reporting date. When a foreign operation is disposed of, in part or in full, through sale, liquidation, repayment of share capital or abandonment, the relevant amount of the foreign currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

2. Basis of Preparation (Continued)

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to be part of the net investment in foreign operation and are recognised directly in other comprehensive income and presented within equity in the foreign currency translation reserve.

As at 31 December 2012 the principal rates of exchange used for translating foreign currency balances were US$ 1 = RR 30,3727 (31 December 2011: US$ 1 = RR 32,1961) and CZK 1=RR 1,60 (31 December 2011: CZK 1=RR 1,62).

Restatement. During 2012 management obtained sufficient financial information to enable them to conclude that a non-current available-for-sale investment had been fully impaired before 1 January 2011. As the impairment occurred prior to 1 January 2011, management has restated the comparative information and recognized an impairment of the carrying amount of this available-for-sale investment of US$ 31 180 directly in equity as at 1 January 2011 (Note 15).

The adjustment had the following impact of the amounts recognized in the financial statements as at 1 January 2011 and 31 December 2011:

	31 December 2011 As previously reported	31 December 2011 Restated
Non-current assets:		
Other non-current financial assets	38 275	8 759
Total non-current assets	**389 970**	**360 455**
Total assets	**1 150 758**	**1 121 243**
Equity and reserves attributable to the Company's equity holders:		
Retained earnings	155 242	125 726
Equity attributable to owners of the Company	**228 555**	**199 040**
Total equity	**303 618**	**274 103**
Total liabilities and equity	**1 150 758**	**1 121 243**

	1 January 2011 As previously reported	1 January 2011 Restated
Non-current assets:		
Other non-current financial assets	106 209	75 029
Total non-current assets	**521 279**	**490 099**
Total assets	**1 460 876**	**1 429 696**
Equity and reserves attributable to the Company's equity holders:		
Retained earnings	212 916	181 736
Equity attributable to owners of the Company	**284 950**	**253 770**
Total equity	**402 226**	**371 046**
Total liabilities and equity	**1 460 876**	**1 429 696**

3. Summary of Significant Accounting Policies

The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Consolidated financial statements

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

Non-controlling interests. Some of the Group's subsidiaries are incorporated as Limited Liability Companies registered in Russia and have a provision in their charters granting the owners with an interest in the charter capital a legally enforceable right to withdrawal from the subsidiary and receive the book value of their participatory interest in the subsidiary. In these circumstances, the subsidiary is obligated to repay the amount of such interest within twelve months after the date of the claim. Management has considered all the conditions required to be met for recognition of participants' interest in the consolidated companies as equity in accordance with IFRS. Management has concluded that although the participants' interests in the consolidated companies have some characteristics that are similar to financial liabilities, they represent a residual interest in the companies and meet the criteria for recognition as equity instruments under IFRS and, as such, are presented as equity as at 31 December 2012 and 2011. Management also notes that these non-controlling interests are held directly by a controlling shareholder and their understanding is that they have no intention to withdraw from their participation in these limited liability entities.

Acquisitions from entities under common control. Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for at the date that common control was established. Identifiable assets and liabilities acquired are recognised at the fair value. Any cash excess over the identifiable assets and liabilities is recognised as goodwill. When the excess is negative, a bargain purchase gain is recognised in equity as a capital contribution from the shareholders of the acquirer.

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

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

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

3. Summary of Significant Accounting Policies (Continued)

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investment object are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables and cash and cash equivalents.

3. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.

Impairment of non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3. Summary of Significant Accounting Policies (Continued)

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred.

The method of accounting for the fair value gain or loss depends on whether the derivative is designated as a hedging instrument or held for trading. Trading derivatives are presented within Other financial assets or within Trade and other payables when their fair value is positive or negative, respectively. Hedging derivatives with less than one year to maturity are presented within Trade and other receivables or within Trade and other payables when their fair value is positive or negative, respectively. Hedging derivatives with more than one year to maturity are presented as Other non-current financial assets or within Other long-term liabilities when their fair value is positive or negative, respectively. The Group designates as hedging instruments only those contracts, for which it assesses at the hedge inception that the derivative that is used in the hedging transaction is highly effective in offsetting changes in cash flows of the hedged item, and for which proper documentation of the hedging relationship is in place.

The Group uses derivatives to hedge future cash flows. The Group classifies as hedging derivatives only those derivatives that hedge changes in cash flows from highly probable future transactions caused by changes in currency exchange rates and against changes in cash flows from highly probable future transactions caused by changes in commodity prices.

Changes in the fair value of derivatives that qualify as effective cash flow hedges are recognised in the hedging reserve in other comprehensive income. Where a hedged forecasted transaction or firm commitment results in the recognition of a non-financial asset or of a non-financial liability, the gains and losses previously deferred in the hedging reserve are recycled from the hedging reserve and are included in the initial cost of the asset or liability. When a hedged forecasted transaction or firm commitment results in the recognition of a financial asset or of a financial liability, the amounts deferred in the hedging reserve are recycled to profit and loss and classified as income or expense in the periods during which the hedged item affects the profit and loss.

3. Summary of Significant Accounting Policies (Continued)

When a hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting or the Group revokes the hedged derivative designation, any cumulative gain or loss on the hedging instrument, from the period when the hedge was effective, remains recognised in other comprehensive income until the forecast transaction occurs. Derivatives which do not meet the criteria for hedge accounting, or where the Group revokes the hedged derivative designation, are classified as trading derivatives.

When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately recycled to profit and loss and classified as financial income or financial expense.

Changes in the fair value of derivatives for trading are classified as financial income or financial expense.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as discounting the future cash flows or option models. The fair value of forward foreign exchange contracts is determined as the present value of future cash flows based on forward exchange market rates as at the balance sheet date. Fair value of commodity swaps is the present value of future cash flows from commodity derivatives based on the forward price taken from London Metal Exchange as the balance sheet date.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Certain derivative instruments do not qualify for hedge accounting according to IAS 39 “Financial Instruments: Recognition and Measurement”. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised in profit and loss for the period (as part of financial activities of the Group).

Property, plant and equipment. Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

Costs include expenditure that is directly attributable to the acquisition or construction of the asset including the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Repairs and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the net book values of the replaced parts or components is derecognised. Gains and losses arising from the retirement of property, plant and equipment are included in profit and loss as incurred.

The carrying amounts of the Group’s property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in profit or loss. 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.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of property, plant and equipment, and is recognised net in other operating income/expense in profit or loss.

3. Summary of Significant Accounting Policies (Continued)

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.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

	Number of years
Buildings	20 - 50
Machinery and equipment	10 - 25
Other	3 - 10

Land and assets under construction are not depreciated.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3. Summary of Significant Accounting Policies (Continued)

Leased assets. Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

Intangible assets

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Goodwill is carried at cost less accumulated impairment losses, if any.

Goodwill is allocated to the cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment.

The Group tests goodwill for impairment annually at the reporting date. An impairment loss is recognised if the carrying amount of the cash-generating unit exceeds its recoverable amount. The recoverable amount of the CGU is the greater of its value in use and its fair value less costs to sell. 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 CGU.

Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis. An impairment loss in respect of goodwill is not reversed.

3. Summary of Significant Accounting Policies (Continued)

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. The difference arising on the acquisition of a non-controlling interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange. This difference arising on the acquisition of a non-controlling interest in a subsidiary is recognised directly in equity and presented within retained earnings.

Research and development. Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The capitalised expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in the profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software, patents, trademarks and licences.

Acquired computer software licenses, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use.

Trademarks are recognised at historical cost. Trademarks have a definite useful life and are carried in the statement of financial position at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (50 years). Where an indication of impairment exists, the carrying amount of trademarks are assessed and, when impaired, the asset is written down immediately to its recoverable amount, which is the higher of fair value less costs to sell and value in use.

Expenditure on acquired patents and licences is capitalised and amortised using the straight-line method over their useful lives, which do not exceed 20 years. The useful lives of other intangible assets do not exceed 15 years.

Intangible assets with definite useful lives are tested for impairment on the same basis as property, plant and equipment.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory inventories is determined based on the weighted average cost method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

3. Summary of Significant Accounting Policies (Continued)

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting date. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

Discontinued operations. A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

The Group stops classifying its non-current assets (or disposal group) as held for sale if core principles are not met – if its carrying amount will not be recovered principally through a sale transaction rather than through continuing use and if there is no commitment to sell (or exchange for shares in another entity) a substantial share of its interest in the subsidiaries.

3. Summary of Significant Accounting Policies (Continued)

If an entity ceases to classify a component of the Group as held for sale, the result of operations of the component previously presented in discontinued operations shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of any tax effects) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to the Company's equity holders.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements are authorised for issue.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Provisions for liabilities and charges. Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises the estimated liability to repair or replace products sold still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

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. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Financial guarantees. Financial guarantees are contracts that requires the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date, if it is probable that an outflow of economic resources will be required to settle the obligation.

3. Summary of Significant Accounting Policies (Continued)

Construction contracts. Construction contracts generally include long-term contracts to manufacture design-build equipment, including nuclear power plant equipment, continuous casting machines and handling machinery.

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are probable of recovery. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The Group uses the "percentage of completion method" to determine the appropriate amount of revenues to recognise in a given period.

Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers are included within trade and other receivables.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Revenue recognition. Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Employee benefits. Wages, salaries, contributions to the Russian Federation and the Czech Republic state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Pension costs. In the normal course of business the Group contributes to the Russian Federation and the Czech Republic state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension schemes are expensed when incurred.

Discretionary pensions and other post-employment benefits are included in labour costs in the statement of comprehensive income of operations; however, separate disclosures are not provided, as these costs are not material.

Lease Payments. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3. Summary of Significant Accounting Policies (Continued)

Finance income and costs. Finance income comprises interest income on funds invested, gains on the disposal of available-for-sale and other financial assets and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, and impairment losses recognised on financial assets, other than trade receivables. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Income taxes. Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, 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 recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Segment reporting. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of directors to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Earnings per share. The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of long-lived assets. The Group tests goodwill for impairment at least annually and other non-financial assets, other than inventories and deferred tax assets, are tested at least at each reporting date if there are indicators of impairment. The recoverable amounts of cash-generating units are determined based solely on value-in-use calculations when testing indicates that there is no impairment and based on the higher of value-in-use and fair value less costs to sell when value-in-use calculations indicate that there is impairment.

Impairment of inventories. The Group reviews inventories at least annually and assesses the expected method of disposal, the proceeds or other economic benefits, if any, likely to be recovered from the disposal and the expected completion, selling and any other costs likely to be incurred during the disposal process when determining the net realisable value of inventory.

Impairment of loans receivable. The Group reviews the carrying amount of loans receivable on an individual basis to determine whether there are indications that loans receivable are impaired. This analysis included analysis of loan receivable are overdue or not, review of repayments after the reporting date and review of the borrower's financial information in order to determine its financial position and ability to repay its obligations.

Impairment of trade and other receivables. The primary factors that the Group considers when assessing whether a receivable is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

The judgments have been made in the determination of trade and other receivables provision amount (Note 10) and provisions for inventory (Note 11).

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 29).

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable.

With respect to deferred taxes, management has assumed that US$ 21 905 of tax losses will be utilised in the future (31 December 2011: US$ 13 475), the effect of which caused a decrease of the deferred tax liability recorded as at 31 December 2012 by US$ 4 381 (31 December 2011: US$ 2 695). Should these tax losses not be utilised, the deferred tax liability would be increased by this amount with a corresponding impact on the tax expense for the year. Tax benefits expire in 2012-2020.

As at 31 December 2012, management assessed that US$ 100 625 of previously incurred losses would not be utilized before expiration due to lack of sufficient expected tax profits. Consequently US$ 20 125 of deferred tax assets have not been recognized (31 December 2011: US$ 19 566)

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Long-term contracts. Estimates have been made with respect to the recognition of revenue and gross margin on construction contracts including the expected "costs to complete", the probability of recovering retentions withheld by customers, variations/claims that have not yet been contractually agreed, the probability of customers making claims for delays under penalty clauses included in contracts as well as the financial impacts of customers cancelling construction contracts prior to their completion when cancellation clauses are included in contracts.

If actual gross margins on the Group's contracts are by 10% lower than management's estimates as at 31 December 2012, the Group would need to reduce the carrying value of amounts due from customers under construction contracts recognised using the percentage-of-completion method by US$ 43 952 (31 December 2011: US$ 32 965) with a corresponding effect on operating profit.

See Note 21 for significant judgments made in relation to construction contracts.

Going concern. Management has assumed that the Group will continue as a going concern. In making this judgement management considered current intentions and the financial position of the Group. Over the past years the Group has successfully worked with banks and financial institutions to secure the necessary financing for the long-term contracts in process and for other investing needs. Based on the terms of the existing contracts as well as its recent experience, management of the Group expects to be able to continue to secure necessary short-term and long-term financing for its operational and investing cash flow requirements. See note 33(c) for further information.

5. Adoption of New of Revised Standards and Interpretation and Changes in Accounting Policies

In 2012 the Group adopted new Standards, amendments to Standards and Interpretations which became effective as at 1 January 2012 and are expected to have an impact on the recognition, measurement, presentation and disclosure of transactions and other matters in its consolidated financial statements. The following new Standards and amendments were applied by the Group from 1 January 2012 and did not have a significant impact on the Group's accounting policies:

- Amendment to IFRS 7 Disclosures – Transfers of Financial Assets introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment not influenced by the financial position and results of the Group's activity.

- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, have came into effect as at 1 January 2012. The improvements have not had any impact on financial position or performance of the Group.

6. New Accounting Pronouncements

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

6. New Accounting Pronouncements (Continued)

- IFRS 10 Consolidated Financial Statements will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 12 Disclosure of Interests in Other Entities will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

- IFRS 13 Fair Value Measurement will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

- Amendment to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

Unless otherwise described above, the new standards and interpretations are not expected to have a significant effect on the consolidated financial statements of the Group.

7. Segment Information

The Group has one chief operating decision maker which is represented by the Company's Board of Directors. The Board of Directors evaluates the results of operations, assets and liabilities of the operating segments on the basis of financial statements prepared in accordance with International Financial Reporting Standards on quarterly basis.

The Group's operations are organised into four reportable segments which are described below:

Segment Izhorskiye Zavody OJSC. Segment engaged in production of equipment for nuclear power plants in Russia which produces three major types of equipment for the nuclear power industry and machinery equipment:

- Primary circuit equipment for nuclear power plants. A standard set of primary circuit equipment produced by the Group comprises a reactor vessel, in-vessel components, and a cover with extending pipes.
- Used nuclear fuel containers for nuclear power blocks. The Group manufactures containers for storage and transportation of used nuclear fuel from pressurized water reactors and scientific nuclear reactors.
- Machinery equipment based on OMZ's proprietary engineering and the production of equipment based on third party engineering, for various industries, including oil and gas, mining and metallurgical equipment.
- A wide range of spare parts.

In addition, the segment provides services for the installation of nuclear power plant equipment and project management of long-term contracts for the construction of nuclear power plants.

Segment SKODA JS a.s. Segment engaged in production of equipment for nuclear power plants in Czech Republic which produces equipment for the nuclear power plants and provides repair services, installation, upgrading and recycling of equipment for nuclear power plants.

Segment OMZ-Specstal LLC. Segment engaged in production of specialty based steel in Russia, which produces 150 specialty steel grades and a variety of castings and forgings. The Group produces high-strength structural grades, corrosion-resistant, radiation-resistant, heat-resistant, cold-resistant, non-magnetic and high-alloyed grades of steel. Standard types of casting, forging, and moulding production include retaining rings for power generating equipment, chill mould blanks, bearing ring blanks, column equipment, ship spindles, mill rolls, tank courses, as well as similar custom-made metal products. A significant part of the basic metal production is used internally as an input for the machinery equipment manufacturing segment and equipment for nuclear power plants.

Segment IZ-KARTEKS LLC. Segment engaged in production of mining equipment in Russia which specializes in engineering and marketing of three major types of mining equipment: excavators (electric mining excavators and walking draglines), crushing equipment, and rock-drilling machines.

Sales or other transactions between the business segments are determined by management with reference to commercial terms applicable for third parties.

Russia:

	Izhorskiye Zavody OJSC	**OMZ-Specstal LLC**	**IZ-KARTEKS LLC**	**Total**
Year ended 31 December 2012				
Segment sales	**346 075**	**222 817**	**209 454**	**778 346**
Intersegment sales	13 879	107 582	1 020	122 481
External sales	332 196	115 235	208 434	655 865
Reportable segment profit for the year	**45 317**	**970**	**18 281**	**64 568**
Interest income	**5 080**	**361**	**573**	**6 014**
Interest expense	**(14 268)**	**(14 240)**	**(5 022)**	**(33 530)**
Depreciation	**(6 849)**	**(18 499)**	**(4 181)**	**(29 529)**
Income tax expense	**(16 088)**	**(2 037)**	**(6 445)**	**(24 570)**

7. Segment Information (Continued)

Czech Republic:

	SKODA JS a.s
Year ended 31 December 2012	
Segment sales	**254 757**
Intersegment sales	-
External sales	254 757
Reportable segment net profit for the year	**10 837**
Interest income	**114**
Depreciation	**(4 914)**
Income tax expense	**(2 803)**

The Group's sales by type of products is presented as follows:

	Nuclear equipment	Special steel	Mining equipment	Oil and gas equipment	Other	Total
Year ended 31 December 2012						
External sales	440 798	138 639	208 434	134 212	47 822	969 905

The reconciliation of total reportable segments' profit to the profit for the year reported in the consolidated statement of comprehensive income is as follows:

	Year ended 31 December 2012
Profit for the year for reportable segments	75 405
Other profit from non-reportable segments	22 552
Effect of adjustment of percentage of completion and margin under construction contracts	(660)
Effect from elimination of unrealized profit	(815)
Effect from elimination intragroup dividends	(12 045)
Profit for the year	**84 437**

The effect of the adjustments to external sales of the operating segments to present in conformity with IFRSs as reported in the consolidated statement of comprehensive income is as follows:

	Year ended 31 December 2012
External sales for segments	**910 622**
Other external sales	76 481
Effect of adjustment of percentage of completion and margin under construction contracts	(17 198)
Sales in the consolidated statement of comprehensive income	**969 905**

7. Segment Information (Continued)

The total assets and total liabilities of the operating segments are presented as follows:

Russia:

	Izhorskiye Zavody OJSC	OMZ-Specstal LLC	IZ-KARTEKS LLC	Total
Total assets of segments	687 409	385 571	170 040	1 243 020
Total liabilities of segments	522 459	321 076	117 483	961 018

Czech Republic:

	SKODA JS a.s
Total assets of segments	185 859
Total liabilities of segments	85 721

The effect of the adjustments to reportable segment assets and liabilities as at 31 December 2012 to present in conformity with IFRSs as reported in the consolidated statement of financial position is as follows:

Total assets for segments	**1 428 879**
Other assets from non-reportable segments	874 289
Elimination of amounts due to and due from entities consolidated within the Group	(508 073)
Elimination of investments in subsidiaries	(292 267)
Netting-off of due to and due from under construction contracts	(85 025)
Unrealized income and expense arising from intragroup transactions	(3 873)
Effect from elimination of unrealised margin under construction contracts	(15 234)
Total assets in the consolidated statement of the financial position	**1 398 696**

Total liabilities for segments	**1 046 739**
Other liabilities from non-reportable segments	568 809
Elimination of amounts due to and due from entities consolidated within the Group	(508 073)
Netting-off of due to and due from under construction contracts	(85 025)
Total liabilities in the consolidated statement of financial position	**1 022 450**

In presenting information on the basis of geographical information, revenue is based on the geographical location of customers and non-current assets based on entities location.

	Sales Year ended 31 December 2012	Non-current assets 31 December 2012
Russian Federation	652 051	440 418
OECD countries	215 420	67 242
Other regions	102 434	-
Total	**969 905**	**507 660**

7. Segment Information (Continued)

Comparative information for 2011 year:

Russia:

	Izhorskiye Zavody OJSC	OMZ-Specstal LLC	IZ-KARTEKS LLC	Total
Year ended 31 December 2011				
Segment sales	**256 951**	**222 749**	**193 620**	**673 320**
Intersegment sales	20 676	81 297	1 563	103 536
External sales	236 275	141 452	192 057	569 784
Reportable segment profit/(loss) for the year	**2 068**	**(89 172)**	**9 207**	**(77 897)**
Interest income	**1 840**	**164**	**1 057**	**3 061**
Interest expense	**(12 016)**	**(10 724)**	**(5 128)**	**(27 868)**
Depreciation	**(8 113)**	**(24 884)**	**(2 954)**	**(35 951)**
Income tax expense	**(953)**	**(2 442)**	**(3 646)**	**(7 041)**

Czech Republic:

	SKODA JS a.s
Year ended 31 December 2011	
Segment sales	**279 976**
Intersegment sales	-
External sales	279 976
Reportable segment profit for the year	**12 161**
Interest income	**166**
Interest expense	**-**
Depreciation	**(5 780)**
Income tax expense	**(3 461)**

The sales by types of products presented by following:

	Nuclear equipment	Special steel	Mining equipment	Oil and gas equipment	Other	Total
Year ended 31 December 2011						
External sales	485 757	164 040	192 138	58 957	44 058	944 950

The reconciliation of total reportable segments' loss to the loss for the year reported in the statement of comprehensive income is as follows:

	Year ended 31 December 2011
Net loss of segments	(65 736)
Other loss from non-reportable segments	(18 439)
Effect of adjustment of percentage of completion and margin under construction contracts	9 577
Effect from elimination of unrealized profit	(1 534)
Effect from elimination intragroup dividends	(9 358)
Loss for the year	**(85 490)**

7. Segment Information (Continued)

The effect of the adjustments to external sales of the operating segments to present in conformity with IFRSs as reported in the statement of comprehensive income is as follows:

	Year ended 31 December 2011
External sales for segments	**849 760**
Other external sales	74 658
Effect of adjustment of percentage of completion and margin under construction contracts	20 532
Sales in the consolidated statement of comprehensive income	**944 950**

The total assets and total liabilities of the operating segments are presented as follows:

	Izhorskiye Zavody OJSC	OMZ-Specstal LLC	IZ-KARTEKS LLC	Total
Total assets for segments	639 386	306 131	130 358	1 075 875
Total liabilities for segments	527 543	246 225	94 615	868 383

	SKODA JS a.s.
Total assets for segments	239 275
Total liabilities for segments	144 442

The effect of the adjustments to reportable segment assets and liabilities as at 31 December 2011 to present in conformity with IFRSs as reported in the consolidated statement of financial position is as follows:

Total assets for segments	**1 315 150**
Other assets of non-reportable segments	764 945
Elimination of amounts due to and due from entities consolidated within the Group	(491 620)
Elimination of investments in subsidiaries	(280 560)
Netting-off of due to and due from under construction contracts	(182 644)
Unrealized income and expense arising from intragroup transactions	(3 515)
Effect from elimination of unrealised margin under construction contracts	(514)
Total assets in the consolidated statement of financial position	**1 121 242**

Total liabilities for segments	**1 012 825**
Other liabilities of non-reportable segments	495 360
Elimination of amounts due to and due from entities consolidated within the Group	(491 620)
Netting-off of due to and due from under construction contracts	(182 644)
Effect from elimination of unrealised margin under construction contracts	13 219
Total liabilities in the consolidated statement of financial position	**847 140**

In presenting information on the basis of geographical information, revenue is based on the geographical location of customers and non-current assets based on entities location.

	Sales Year ended 31 December 2011	Non-current assets 31 December 2011
Russian Federation	564 140	274 346
OECD countries	300 885	63 524
Other regions	79 925	-
Total	**944 950**	**337 870**

8. Balances and Transactions with Related Parties

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

In April 2012 a new company CJSC "Forpost-Holding" was created as a result of reorganization of CJSC "Forpost-Management". Shares of OJSC OMZ were transferred to CJSC "Forpost-Holding". Since April 2012 the immediate parent company of the Company is CJSC "Forpost-Holding".

The party with ultimate control over the Company and the ultimate parent company is the Non-State Pension Fund "Gazfond". No publicly available financial statements are produced by the Company's immediate parent company or ultimate controlling party. An intermediate parent company, OJSC "Gazprombank", prepares consolidated financial statements that are publicly available.

As at 31 December 2012 CJSC "Forpost-Holding" owned 46,10% of the Company's total outstanding common shares (31 December 2011: 46,31% owned by CJSC "Forpost-Management"). CJSC "Forpost-Holding" is able to exercise control over the Company's operating and financial policies so as to obtain the benefits from its activities by virtue of the fact that, adjusted for ordinary shares held in treasury stock held by the Group, it controls in excess of 50% of the voting rights of the outstanding common shares.

During the year 2012 the Group in addition acquired plant and equipment of US$ 43 312 (2011: US$ 12 245) from its immediate parent company.

The outstanding balances with the related parties were as follows:

	31 December 2012		31 December 2011	
	Immediate and intermediate parent companies	**Entities under common control**	**Immediate and intermediate parent companies**	**Entities under common control**
Cash and cash equivalents	13 570	-	9 499	-
Gross amount of trade receivables	-	15 507	7	15 065
Other receivables	3	5 360	984	3 808
Advances issued	-	82 955	71	39 270
Loans issued	-	102 883	248	8 709
Other current assets	-	111	-	105
Trade and other payables	-	(9 945)	(2 205)	(12 913)
Advances received	-	(58 297)	(48 174)	(4 949)
Long -terms loans and borrowings	(201 480)	-	(39 098)	-
Short- terms loans and borrowings	(213 435)	-	(91 562)	(8)

Amounts due from related parties are unsecured.

Loans and borrowings received from related parties are comprised of loans from OJSC "Gazprombank". The majority of these loans are denominated in RR.

8. Balances and Transactions with Related Parties (Continued)

The Group's other related party transactions are disclosed below:

	Year ended 31 December 2012		Year ended 31 December 2011	
	Immediate and intermediate parent company	**Entities under common control**	**Immediate and intermediate parent company**	**Companies under common control**
Sales of goods	-	35 973	87	45 406
Purchases	(963)	(15 642)	(1 168)	(30 611)
Interest income	344	5 715	68	2 676
Interest expense	(17 889)	(342)	(7 863)	(14)
Proceeds from borrowing	691 074	40 845	650 565	503
Repayment of loans	(419 626)	(40 845)	(628 971)	(528)
Income from disposal of investments within structured transaction (Note 18)	-	-	-	14 403

Key management compensation

The remuneration paid to the key management of the Group including members of the Board of Directors of the Company is determined for the period from one annual general meeting to the next. For the year ended 31 December 2012 the aggregate compensation to the directors included in general and administrative expenses in the consolidated statement of comprehensive income amounted to US$ 15 155 (31 December 2011: US$ 14 096). These figures include termination benefits in the amount of US$ 293 for the year ended 31 December 2012 (31 December 2011: US$ 699). All other benefits accrued to key management are short term employee benefits.

Guarantees

As at 31 December 2012, the Group had no guarantees for related parties' loans payable to an intermediate parent company (31 December 2011: US$ 41 399). Guarantee fees are determined on a case-by-case basis and are charged annually (Note 29).

Pricing policies

Certain related party transactions such as guarantees issued and acquisition and disposal of investments are based on prices determined with input from an intermediate parent company. Borrowings from related parties are denominated in Russian Roubles and Euro at interest rates of between 7,4-10,5% and 3,19-3,63% per annum respectively (2011: borrowings denominated in Russian Roubles 8-13% per annum).

9. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	31 December 2012	31 December 2011
RR denominated cash on hand and balances with banks	7 748	3 288
CZK denominated cash on hand and balances with banks	34 514	21 573
EUR denominated cash on hand and balances with banks	10 352	11 817
US$ denominated cash on hand and balances with banks	5	6
Other currency denominated balances with bank	46	43
Cash equivalents in RR	5 938	11
Cash equivalents in CZK	-	1 608
Total cash and cash equivalents in the consolidated statement of financial position	**58 603**	**38 346**
Bank overdraft	(248)	(1 551)
Total cash and cash equivalents in the consolidated statement of cash flows	**58 355**	**36 795**

The effective annual interest rate of bank balances payable on demand is 0,1% (31 December 2011: 0,1%).

All bank balances and term deposits are neither past due nor impaired.

10. Trade and Other Receivables

	31 December 2012	31 December 2011
Trade receivables	121 646	118 886
Accounts due from customers for construction work	138 607	130 016
Forward foreign exchange contracts – cash flow hedges	137	22
VAT receivable	9 739	14 480
VAT on advances from customers	69 929	98 870
Other taxes receivable	446	1 661
Other receivables	9 352	5 913
Total trade and other receivables	**349 856**	**369 848**
Advances to suppliers	136 906	105 482

Accounts receivable are denominated in RR except for US$ 9 875 denominated in US$, US$ 46 885 denominated in CZK and US$ 60 649 denominated in EUR as at 31 December 2012 (31 December 2011: US$ 2 916 denominated in US$, US$ 71 610 denominated in CZK, US$ 95 638 denominated in EUR).

Future cash receipts under trade contracts in the amount of US$ 24 640 (31 December 2011: US$ 85 730) are pledged under loan agreements (Note 18).

As at 31 December 2012 trade and other accounts receivable, advances to suppliers and VAT receivable of US$ 29 318 (31 December 2011: US$ 27 383) were individually impaired. The individually impaired receivables mainly relate to customers overdue for more than 6 months, which management does not expect to be collectible.

One of Group's largest customers, a Russian general contractor in the nuclear power plant industry, accounts for 56% of the accounts due from customers for construction work amount as at 31 December 2012 (2011: 52%).

Provisions for impairment offset against the trade and other receivable balances and advances to suppliers are as follows:

	31 December 2012	31 December 2011
Trade receivables	(5 238)	(3 616)
Accounts due from customers for construction work	(3 853)	(4 335)
Advances to suppliers	(2 341)	(2 756)
Other receivables	(16 503)	(15 672)
VAT receivable	(1 383)	(1 004)
	(29 318)	**(27 383)**

10. Trade and Other Receivables (Continued)

Movements in the impairment provision for trade and other receivables and advances to suppliers are as follows:

	Trade receivables	Accounts due from customers for construction work	Advanced to suppliers	Other receivables	VAT recoverable	Total
As at 1 January 2011	**(6 547)**	**-**	**(1 586)**	**(15 141)**	**(2 238)**	**(25 512)**
Provision charged	(1 732)	(4 749)	(1 724)	(1 865)	(1 100)	(11 170)
Provision used	1 215	-	57	378	2 320	3 970
Provision reversed	3 347	-	293	90		3 730
Exchange differences	101	414	204	866	14	1 599
As at 31 December 2011	**(3 616)**	**(4 335)**	**(2 756)**	**(15 672)**	**(1 004)**	**(27 383)**
Provision charged	(6 075)	-	(131)	(1 804)	(453)	(8 463)
Provision used	1 703	-	320	17	142	2 182
Provision reversed	2 999	725	378	1 895	-	5 997
Exchange differences	(249)	(243)	(152)	(939)	(68)	(1 651)
As at 31 December 2012	**(5 238)**	**(3 853)**	**(2 341)**	**(16 503)**	**(1 383)**	**(29 318)**

As at 31 December 2012, trade receivables of US$ 45 507 (31 December 2011: US$ 53 223) were past due but not impaired. These relate to a number of customers with no recent history of default. The ageing of these trade receivables is as follows:

	31 December 2012	31 December 2011
Less than 6 months	39 325	51 003
From 6 to 12 months	6 182	2 220
More than 12 months	-	-
Total trade receivable past due not impaired	**45 507**	**53 223**

11. Inventories

	31 December 2012	31 December 2011
Raw materials	133 427	112 523
Work in progress	63 652	94 634
Finished goods	30 318	21 733
Goods in transit	441	9 739
Other	374	199
Provision for inventory	(17 262)	(19 389)
Total Inventories	**210 950**	**219 439**

As at 31 December 2012 there are no inventories pledged under loan agreements. (31 December 2011: nil).

Provision for inventory primarily relates to slow-moving and obsolete stock, which is unlikely to be used in production or sold for consideration sufficient to recover it’s carrying amount.

Movements in the provision for inventory are as follows:

	Provision for inventory
As at 1 January 2011	**(17 976)**
Provision charged	(7 354)
Provision reversed	4 700
Provision used	177
Exchange differences	1 064
As at 31 December 2011	**(19 389)**
Provision charged	(6 147)
Provision reversed	8 078
Provision used	1 265
Exchange differences	(1 069)
As at 31 December 2012	**(17 262)**

12. Other Current Financial Assets

	31 December 2012	31 December 2011
Short-term loans issued	127 106	30 750
Provision for short-term loans issued	(24 552)	(25 530)
Promissory notes	7 918	7 575
Provision for promissory notes	(7 807)	(7 470)
Restricted cash	9 854	14 580
Other	4	-
Total Other Current Assets	**112 523**	**19 905**

Restricted cash of US$ 9 854 as at 31 December 2012 (31 December 2011: US$ 14 580) represents CZK-denominated cash advances received from customers that have been placed in a bank deposit and whose use is restricted to payments to specific suppliers as stipulated in the contracts with customers.

In 2011 promissory notes past due from a former subsidiary (that has since entered bankruptcy) and short-term loans issued with a recent history of defaulttogether totalling of US$ 27 071 were provided in full.

Short-term loans issued have been predominately provided to entities under common control that are based in Russia and manufacture equipment and heavy machinery. Three related individual borrowers account for 48%, 20% and 16% of the total carrying amount outstanding as at 31 December 2012 (2011 0%, 0% and 0%). Management has evaluated the creditworthiness of these borrowers by reviewing their financial information and also taken into consideration recapitalizations that are planned for 2013 when assessing the recoverability of these loans. Based on this evaluation, management has concluded that no additional impairment is necessary.

The short-term loans of US$ 102 883 are issued to related parties of the Group and are not overdue (Note 8).

The impairment loss recognized for loans issued to related parties was in amount US$ 375 in 2012 (2011: US$ 2 327).

Movements in the impairment provision for promissory notes and short-term loans issued are as follows:

	Provision for short-term loans issued	Provision for promissory notes
As at 1 January 2011	**(2 034)**	**(7 788)**
Provision charged	(27 071)	-
Provision reversed	930	-
Provision used	282	-
Exchange differences	2 363	318
As at 31 December 2011	**(25 530)**	**(7 470)**
Provision charged	(1 109)	(769)
Provision reversed	3 544	769
Provision used	16	-
Exchange differences	(1 473)	(337)
As at 31 December 2012	**(24 552)**	**(7 807)**

13. Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
Balance as at 1 January 2012					
Cost	164 213	307 190	15 833	59 658	546 894
Accumulated depreciation	(33 579)	(142 495)	(12 716)	-	(188 790)
Impairment loss recognised	(20 739)	(30 293)	(14)	-	(51 046)
Net book value as at 1 January 2012	**109 895**	**134 402**	**3 103**	**59 658**	**307 058**
Effect of movements in exchange rates	7 961	9 671	200	3 624	21 456
Additions	61 629	92 176	3 009	27 336	184 150
Transfers	12 726	12 085	33	(24 844)	-
Disposals	(1 421)	(2 050)	(325)	(98)	(3 894)
Impairment for the period	(712)	(958)	-	(396)	(2 066)
Depreciation	(4 766)	(27 258)	(1 330)	-	(33 354)
Net book value as at 31 December 2012	**185 312**	**218 068**	**4 690**	**65 280**	**473 350**
Balance as at 31 December 2012					
Cost	248 525	417 597	17 342	65 689	749 153
Accumulated depreciation	(40 529)	(166 719)	(12 639)	-	(219 887)
Impairment loss recognised	(22 683)	(32 810)	(14)	(409)	(55 916)
Net book value as at 31 December 2012	**185 313**	**218 068**	**4 689**	**65 280**	**473 350**

Comparative information for 2011:

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
Balance as at 1 January 2011					
Cost	169 227	301 624	15 836	28 613	515 300
Accumulated depreciation	(32 372)	(125 388)	(13 068)	-	(170 828)
Impairment loss recognised	(2 524)	(2 561)	(1)	-	(5 086)
Net book value as at 1 January 2011	**134 331**	**173 675**	**2 767**	**28 613**	**339 386**
Effect of movements in exchange rates	(5 056)	(6 107)	(103)	(4 624)	(15 890)
Additions	1 842	27 591	1 984	46 261	77 678
Transfers	3 974	6 606	12	(10 592)	-
Disposals	(163)	(3 712)	-	-	(3 875)
Impairment for the period	(20 323)	(30 628)	(15)	-	(50 966)
Depreciation	(4 710)	(33 023)	(1 542)	-	(39 275)
Net book value as at 31 December 2011	**109 895**	**134 402**	**3 103**	**59 658**	**307 058**
Balance as at 31 December 2011					
Cost	164 213	307 190	15 833	59 658	546 894
Accumulated depreciation	(33 579)	(142 495)	(12 716)	-	(188 790)
Impairment loss recognised	(20 739)	(30 293)	(14)	-	(51 046)
Net book value as at 31 December 2011	**109 895**	**134 402**	**3 103**	**59 658**	**307 058**

As at 31 December 2012 bank borrowings are secured with property, plant and equipment with the carrying value of US$ 66 329 (31 December 2011: US$ 14 958) (Note 18).

Land and buildings include 119 plots of land in Bolevec (Czech Republic) with a total area of 334 719 square meters, 9 plots in Pilzen (Czech Republic) with a total area of 32 443 square meters and 39 plots in Kolpino (Russia) with a total area of 1 138 555 square meters.

The amount of borrowing costs capitalized during the 2012 is US$ 5 678 (2011: US$ 2 400) using a capitalization rate of 8,21% (2011: 8%).

13. Property, Plant and Equipment (Continued)

Impairment of property, plant and equipment at LLC OMZ-Specstal

During 2011, the financial performance of LLC OMZ-Specstal significantly underperformed budget with increases in sales not translating into an improvement in the operating result compared to the prior year. Management considered this factor as an indicator of potential impairment and performed impairment testing which result in an impairment charge of US$ 50 966 being recognised.

As at 31 December 2012 management performed an impairment test of the carrying value of the property, plant and equipment of LLC OMZ-Specstal due to indicators that impairment previously recognized can potentially be reversed.

The recoverable amounts have been determined based on value in use. Cash flows were projected based on historical operating results and an eight-year cash flow forecast.

Assumptions underlying the impairment testing are described below:

- The revenue growth was forecasted based on the actual revenue amount and expected growth rate of revenue, which was from 4% to 16% (2011: 13% to 29%).
- Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) in absolute terms was forecasted based on the EBITDA/Revenue ratio of 5% to 19% (2011: 8,7% to 21,1%).
- A pre-tax discount rate of 16,32% (2011: discount rate 23,6%) was applied in determining the recoverable amount of the property, plant and equipment. The discount rate was estimated based on industry average weighted average cost of capital (2011: based on industry average weighted average cost of capital adjusted for risks not reflected in the discounted cash flow model).
- A terminal value was derived at the end of a eight-year forecast period with a 3% terminal growth rate.

The values assigned to the key assumptions represent management's assessment of future trends in specialty steel production industry and are based on both external sources and internal sources (historic data). The results of the 2012 impairment test demonstrated that the recoverable amount approximated the carrying amount of the property, plant and equipment. Therefore management took a decision not to reverse the impairment loss of US$ 50 966.

Management of the Group performed the sensitivity analysis of the results of impairment test to the changes in the principal assumptions:

- An increase in WACC by 1 percentage point would result in an additional impairment charge against of property, plant and equipment of US$ 23 723; a decrease in WACC by 1 percentage point would result in a reversal of previously recognized impairment of US$ 28 286.
- An increase in revenue for the forecast periods by 1 percentage point with no corresponding change in cost of sales would result in reversal of US$ 127 581; a decrease in revenue for the forecast periods by 1 percentage point with no corresponding change in cost of sales would result in an impairment charge of US$ 121 130.

14. Intangible Assets

The carrying value of intangible assets as at 31 December 2012 and 2011 was as follows:

	Trademark	Other intangible assets	Total
Balance as at 1 January 2012			
Cost	15 779	34 592	50 371
Accumulated amortization	(3 979)	(17 174)	(21 153)
Impairment loss recognised	-	(329)	(329)
Net book value as at 1 January 2012	**11 800**	**17 089**	**28 889**
Additions	-	7 115	7 115
Disposals	-	(905)	(905)
Amortization	(537)	(3 608)	(4 145)
Exchange differences	588	1 031	1 619
Net book value as at 31 December 2012	**11 851**	**20 722**	**32 573**
Balance as at 31 December 2012			
Cost	16 590	40 051	56 641
Accumulated amortisation	(4 739)	(18 980)	(23 719)
Impairment loss recognised	-	(349)	(349)
Net book value as at 31 December 2012	**11 851**	**20 722**	**32 573**

Comparative information for 2011

	Trademark	Other intangible assets	Total
Balance as at 1 January 2011			
Cost	16 413	32 825	49 238
Accumulated amortization	(3 590)	(13 137)	(16 727)
Net book value as at 1 January 2011	**12 823**	**19 688**	**32 511**
Additions	-	4 208	4 208
Disposals	-	(199)	(199)
Amortization	(595)	(5 492)	(6 087)
Impairment for the period	-	(329)	(329)
Exchange differences	(428)	(787)	(1 215)
Net book value as at 31 December 2011	**11 800**	**17 089**	**28 889**
Balance as at 31 December 2011			
Cost	15 779	34 592	50 371
Accumulated amortisation	(3 979)	(17 174)	(21 153)
Impairment loss recognised	-	(329)	(329)
Net book value as at 31 December 2011	**11 800**	**17 089**	**28 889**

Trade marks consist of license agreements for trade mark “ŠKODA” used by ŠKODA JS a.s. The fair values of these licensed agreements for trade marks were evaluated by an independent appraiser American Appraisal in 2004 using the income approach, referred to as the “relief from royalty” method. No indications of impairment were identified by the Group as of the reporting date for these intangible assets.

Internally developed intangible assets mostly consist of patented and non-patented technologies.

15. Other Non-Current Financial Assets

	31 December 2012	31 December 2011 Restated	1 January 2011 Restated
Long-term loans receivable	-	-	59 894
Available-for-sale investments stated at cost	35 826	33 816	34 785
Impairment of available-for-sale investments stated at cost	(31 288)	(29 516)	(31 180)
Non-current accounts receivable	3 554	4 459	4 815
Restricted cash	-	-	6 715
Total other non-current financial assets	**8 092**	**8 759**	**75 029**

The long-term loans receivable include loans issued to a third party in connection with a structured transaction which were settled during 2011 (see note 18).

Available-for-sale investments stated at cost

		31 December 2012		31 December 2011 Restated		January 2011 Restated	
Entity	**Country of Incorporation**		**% of share capital**		**% of share capital**		**% of share capital**
CJSC “Atomstroyexport”	Russian Federation	31 288	0,24	29 516	0,24	31 180	3,44
CJSC “Sezam”	Russian Federation	8	22	8	22	8	22
UJV Rez a.s.	Europe	2 417	17	2 299	17	2 391	17
Other	Russian Federation	2 113	-	1 993	-	1 205	-
		35 826		**33 816**		**34 784**	

In 2008 the Group acquired 4 536 shares in CJSC “Atomstroyexport”, which represented an 11% ownership interest. In 2011 and 2010 the Group’s share was diluted as a result of additional share-issues by the investee.

The Federal Law “On Joint Stock Companies” states that only shareholders with a 25% ownership interest or more have the right to request detailed financial information from the entity, in which they hold their investment. Until the end of 2012, management had requested financial information from CJSC “Atomstroyexport” to assess whether the Group's investments had been impaired or not, but was unable to obtain sufficient financial information directly from the investee or from other public sources and, consequently, had been unable to determine whether the Group’s investments in CJSC “Atomstroyexport” had been impaired or not as at 31 December 2011 and 31 December 2010.

At the end of 2012 management obtained sufficient financial information to make a judgment and concluded that the investment in CJSC Atomstroyexport had been fully impaired prior to 1 January 2011 as a consequence of significant operating losses incurred by the entity, significant dilution of the Group’s ownership stake, no liquid market for the disposal of the shares held and an absence of any evidence that the cost of the investment would be able to be recovered through other means. As a result management recognized impairment loss for the carrying amount of available-for-sale investment in amount US$ 31 180 directly in equity as at 1 January 2011. The comparative information was restated (Note 2).

Other available for sale investments stated at cost as at 31 December 2012 and as at 31 December 2011 comprise of unquoted equity securities in the Nuclear Power Construction/Services and other industries. There is no market for these investments and there have not been any recent transactions with third parties that provide evidence of fair value. In addition, discounted cash flow techniques could not be applied due to a lack of financial information.

16. Other Non-Current Assets

	31 December 2012	31 December 2011
Advances issued	97	92
Other non-current assets	1 640	1 832
Total Other Non-Current Assets	**1 737**	**1 924**

17. Trade and Other Payables

	31 December 2012	31 December 2011
Trade payables	89 195	87 619
Billings in excess of cost and recognized income	137 201	94 578
Derivatives	188	1 291
Payables for acquisition of fixed assets	6 983	3 743
Other payables and accrued expenses	2 417	8 148
Total financial liabilities	**235 984**	**195 379**
Payables owed to employees	24 784	16 076
Provision for unused vacation	8 057	6 196
VAT payable	42 629	50 989
Advances received	152 602	279 982
Other taxes payable	8 965	6 874
Total trade and other accounts payable	**473 021**	**555 496**

As at 31 December 2012 trade and other accounts payable were primarily denominated in RR except for US$ 3 905 denominated in US$, US$ 42 305 denominated in CZK, US$ 30 342 denominated in EUR (31 December 2011: US$ 9 621 denominated in US$, US$ 123 848 denominated in CZK, US$ 83 225 denominated in EUR).

18. Borrowings

Short-term loans and borrowings

	31 December 2012	31 December 2011
EUR denominated fixed rate	5 183	1 819
EUR denominated floating rate	16 164	11 622
CZK denominated fixed rate	-	7
RR denominated fixed rate	87 891	73 568
RR denominated floating rate	132 553	55 410
	241 791	**142 426**
Short-term finance lease liabilities	-	2
Non-convertible bonds	2 931	-
Total short-term borrowings	**244 722**	**142 428**

The nominal interest rates at the balance sheet dates were as follows:

	31 December 2012	31 December 2011
EUR denominated fixed rate	1-4,5%	4,0 – 5,95%
EUR denominated floating rate	2,27-5,95%	2,66- 3,63%
CZK denominated fixed rate	7,91%	7,91%
RR denominated fixed rate	5,9-11%	5,9 - 13,75%
RR denominated floating rate	6,6-12%	6,45 - 12%
Non-convertible bonds	8,25%	-

Due to their short-term nature, the fair values of the Group's current loans and borrowings approximate their carrying amounts. As at 31 December 2012 the Group's short-term borrowings in the amount of US$ 12 880 (31 December 2011: US$ 62) were secured with the property, plant and equipment and future cash receipts (Note 10, 13).

	31 December 2012		31 December 2011	
	Carrying amounts	Fair values	Carrying amounts	Fair values
Non-convertible bonds	2 931	2 931	-	-

Long-term borrowings

	31 December 2012	31 December 2011
RR denominated fixed rate	142 978	78 466
RR denominated floating rate	59 749	1 452
EUR denominated fixed rate	10 753	4 795
EUR denominated floating rate	13 339	11 087
Non-convertible bonds	-	2 765
Total long-term borrowings	**226 819**	**98 565**

18. Borrowings (Continued)

The carrying amounts and fair values of long-term borrowings and non-convertible bonds are as follows:

	31 December 2012		**31 December 2011**	
	Carrying amounts	**Fair values**	**Carrying amounts**	**Fair values**
Non-convertible bonds	-	-	2 765	2 765
Long-term borrowings	226 819	226 819	95 800	95 800

Changes of the carrying amount of non-convertible bonds for years 2012 and 2011 are as follows:

Balance at 1 January 2011	**28 235**
Repayment	(24 002)
Amortization of discount	(45)
Exchange differences	(1 423)
Balance at 31 December 2011	**2 765**
Exchange differences	166
Balance at 31 December 2012	**2 931**

The nominal interest rates of long-term borrowings at the reporting date were as follows:

	31 December 2012	**31 December 2012**
RR denominated fixed rate	7,40-9,25%	7,40 - 14,00%
RR denominated floating rate	8,20-12,00%	12,00%
EUR denominated fixed rate	1,00-5,95%	5,95 - 10,00%
EUR denominated floating rate	2,27-8,15%	2,66 – 8,15 %
Non-convertible bonds		13,00%

As at 31 December 2012, long-term borrowings totalling US$ 142 519 (31 December 2011: US$ 77 898) are secured with the property, plant and equipment and future cash receipts of the Group (Note 13 and 10).

As at 31 December 2012 long-term loans had the following maturity profile:

	2014	**2015 and after**	**Total**
RR denominated fixed rate	8 183	134 795	142 978
RR denominated floating rate	58 441	1 308	59 749
EUR denominated fixed rate	-	10 753	10 753
EUR denominated floating rate	11 091	2 248	13 339
	77 715	**149 104**	**226 819**

As at 31 December 2011 long-term loans had the following maturity profile:

	2013	**2014 and after**	**Total**
RR denominated fixed rate	46 534	31 932	78 466
RR denominated floating rate	-	1 452	1 452
EUR denominated fixed rate	-	4 795	4 795
EUR denominated floating rate	8 497	2 590	11 087
	55 031	**40 769**	**95 800**
Non-convertible bonds	2 765	-	2 765

18. Borrowings (Continued)

Structured transaction

During the year ended 31 December 2010, a subsidiary of the Group participated in a structured transaction designed to enable an intermediate parent company of the Group to acquire an 80% ownership interest in a business (the “target”) from a third party. As at 31 December 2010, this structured transaction was incomplete and, as a consequence, the Group had outstanding interest bearing notes payable that had been issued to a third party with a carrying amount of US$ 115 million. The Group issued these notes to finance the acquisition of the target on behalf of the intermediate parent company. The Group has used a portion of the proceeds of the notes to acquire a direct 20% ownership interest in the target which has been recorded at cost within other current financial assets as at 31 December 2010. In accordance with the terms and conditions of the notes, the remaining proceeds were loaned by the Group to three other third party entities, which in accordance with agreed action plan were used to acquire a 20% ownership interest in the target each. These interest bearing loans had a repayment date of 30 June 2011. As at 31 December 2010, these loans receivable had a carrying amount of US$ 86 million.

In accordance with the terms and conditions of the notes, as the Group acquired shares in the target, these should be immediately pledged as security for the notes. The Group was not permitted to sell, transfer or pledge these shares to other parties without the prior written consent of the note holder. As at 31 December 2010, the carrying value of the shares pledged was US$ 29 million.

The notes issued by the Group included a call and put option feature that allowed the note holder or the Group to exchange each note for a pre-defined number of shares in the target. Prior to the options expiring, the notes required that any distributions made by the target should be transferred by the Group to the note holder. Consequently, at no time during the option exercise period would the Group be able to control the operating activities of the target so as to obtain the benefits.

During 2011, the Group entered into an agreement with a related party under which the 20% ownership interest in the target and the interest bearing loans issued to third parties to acquire an additional 60% ownership interest in the target were transferred to the related party. In return the related party assumed the obligations under the notes payable that were given earlier by the Group to finance the acquisition of the target on behalf of intermediate parent company.

As a result of this agreement, a gain from sale of the available for sale investments in the amount of US$ 14 403 was recognized in profit and loss and presented in financial income for the year ended 31 December 2011. Offsetting this gain was interest expense of US$ 18 744, interest income of US$ 3 573 (Note 26) and foreign exchange gainrelated to the structured transaction of approximately US$ 768 recognised by the Group in profit and loss and presented within finance costs.

19. Other Long-Term Liabilities

	31 December 2012	31 December 2011
Trade payables, long-term	7 314	4 415
Billings in excess of cost and recognized income - non-current portion	8 710	2 148
Long-term advances received	8 849	-
VAT payable	371	-
Other long-term liabilities	-	137
Other long-term liabilities	**25 244**	**6 700**

20. Equity

	Number of outstanding shares (thousands)		Number of treasury shares (thousands)		Share capital		Treasury shares	
	Preference shares	Ordinary shares	Preference shares	Ordinary shares	Preference shares	Ordinary shares	Preference shares	Ordinary shares
As at 1 January 2011	**2 750**	**35 480**	**(2 720)**	**(4 551)**	**27**	**355**	**(23 088)**	**(17 432)**
Currency translation	-	-	-	-	(1)	(20)	1 232	931
As at 31 December 2011	**2 750**	**35 480**	**(2 720)**	**(4 551)**	**26**	**335**	**(21 856)**	**(16 501)**
Currency translation	-	-	-	-	3	19	(1 312)	(991)
As at 31 December 2012	**2 750**	**35 480**	**(2 720)**	**(4 551)**	**29**	**354**	**(23 168)**	**(17 492)**

Share capital

As at 31 December 2012 and 2011 the authorized number of ordinary and preference shares totalled 70 700 thousand and 2 750 thousand, respectively, both with a nominal value per share of RR 0,1.

As at 31 December 2012 and 2011 the issued number of ordinary and preference shares totalled 35 480 thousand and 2 750 thousand.

Preference shares represent cumulative preferred stock without voting rights, except in certain circumstances pertaining to the liquidation or reorganization of the Company, or changes in the charter documents. They earn dividends at 12% per annum of their nominal value, and have a liquidation value of RR 0,1 per share. On liquidation, after the liability for cumulative unpaid dividends and the liquidation value of preference shares have been satisfied, both ordinary and preference shares holders participate equally in the distribution of the remaining net assets.

Treasury shares represent ordinary and preference shares owned by subsidiaries. In accordance with the Company's corporate governance policy these shares represent non-voting stock.

Dividends

Russian statutory financial statements are the basis for the Company's profit distribution and other appropriations. The basis of distribution is defined by the Russian legislation as a company's undistributed profit. The undistributed profit recognized in the published Russian statutory financial statements of the Company as at 31 December 2012 amounts to US$ 5 509 (31 December 2011: US$ 8 522).

In 2012 the Company did not declare and pay any dividends to holders of ordinary shares.

21. Construction Contracts

The revenues and gross margin recognised on long-term-contracts amounted to:

	Year ended 31 December 2012	Year ended 31 December 2011
Contract revenue	494 838	451 092
Contract costs	(366 034)	(380 326)
Gross margin	**128 804**	**70 766**

The Group's financial position with respect to construction contracts is disclosed in Notes 10, 17 and 19.

Construction contracts in progress:

	Year ended 31 December 2012	Year ended 31 December 2011
Contract costs incurred and recognized profits (less losses) to date	2 311 344	2 011 147
Advances received on construction contracts	8 710	152 904

Advances received on construction contracts have been netted off against costs incurred plus profits (or losses) recognised to date in amounts due from customers in accordance with IAS 11 "Construction Contracts".

As at 31 December 2011 retentions due from customers of construction contracts with a face value of US$ 16 414 had not been recognised as they could not be reliably measured due to significant uncertainty in respect of the probability and timing of collection of these amounts receivable. In 2012 the Group reached an agreement with the customer in respect of settlement of the retentions. As a result US$ 5 040 were paid in 2012 and US$ 9 730 were scheduled for payment in 2013 and were recognised in trade accounts receivable as at 31 December 2012 (Note 10).

During the year ended 31 December 2012, management has reassessed the forecast profitability of the Group's construction contracts considering the updated forecasts of costs to complete and the current status of contractual agreements with customers. As a consequence of this reassessment, management has recognised significant additional revenue in the current year, excluding the effect of the retentions due from customers above, that primarily relates to construction activity performed in prior periods.

22. Cost of Sales

	Year ended 31 December 2012	Year ended 31 December 2011
Changes in inventories of finished goods and work in progress	39 750	(20 104)
Materials and components used	318 023	413 039
Labour costs	133 719	126 983
Services, including sub-contracting costs	133 852	153 296
Gas and fuel	39 245	56 857
Depreciation	31 851	37 167
Amortisation of intangible assets	1 235	2 040
Change in provision for inventory	(1 931)	2 654
Other	7 913	19 871
Total cost of sales	**703 657**	**791 803**

Total personnel costs recognised in profit and loss amounted to US$ 206 294 (2011: US$ 190 548).

	Year ended 31 December 2012	Year ended 31 December 2011
Short-term employee benefits	185 457	168 123
Termination payments	1 806	1 332
Contributions to the Social Funds	19 031	21 093
Total personnel costs	**206 294**	**190 548**

23. Selling Expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Transportation	13 082	8 385
Services	3 520	5 765
Labour costs	12 007	9 971
Other	7 999	3 575
Total selling expenses	**36 608**	**27 696**

24. General and Administrative Expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Labour costs	60 568	53 594
Services	20 210	15 645
Taxes	6 487	6 792
Depreciation	1 211	1 780
Amortisation of intangibles	2 908	4 044
Administration overheads	5 657	6 903
Total general and administrative expenses	**97 041**	**88 758**

25. Other Operating Income and Expense

Other Operating Income

	Year ended 31 December 2012	Year ended 31 December 2011
Gain on disposal of inventory	760	-
Gain on disposal of property, plant and equipment	4 614	2 350
Rental income from operating leases	1 596	1 617
Gain from derecognition of financial liabilities	249	1 961
Other income	1 328	52
Total other operating income	**8 547**	**5 980**

Other Operating Expense

	Year ended 31 December 2012	Year ended 31 December 2011
Impairment loss on fixed and intangible assets	(2 066)	(51 326)
Loss from disposal of intangible assets	(312)	(199)
Rent	(2 491)	(3 509)
Fines and penalties	(1 089)	(553)
Impairment loss on accounts receivable	(2 737)	(7 440)
Change in provision for tax receivable	(473)	-
Other expenses	(2 116)	(765)
Total other operating expenses	**(11 264)**	**(63 792)**

26. Finance Income and Expense

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income on loans issued	8 126	4 613
Interest income under structured transaction (Note 18)	-	3 573
Income from disposal of investments within structured transaction (Note 18)	-	14 403
Change in provision for loans issued	2 444	-
Finance income	**10 570**	**22 589**
Change in provision for loans issued	-	(26 150)
Interest expense on financial liabilities measured at amortised cost	(26 653)	(22 146)
Interest expense under structured transaction (Note 18)	-	(18 744)
Net foreign exchange loss	(1 932)	(1 864)
Finance expense	**(28 585)**	**(68 904)**
Net finance expense recognised in the consolidated statement of comprehensive income	**(18 015)**	**(46 315)**

Interest income on impaired financial assets was US$ 2 042 during 2012 (2011: US$ 1 900).

Finance income/(expense), recognized directly in other comprehensive income

	Year ended 31 December 2012	Year ended 31 December 2011
Effective portion of gains or losses on hedging instruments used in cash flow hedges	194	(1 916)
Foreign currency translation differences for foreign operations	17 554	(9 913)
Income tax on income and expense recognised directly in other comprehensive income	(42)	376
Finance income/(expense)recognised directly in other comprehensive income, net of tax	**17 706**	**(11 453)**
Attributable to:		
Shareholders of the Company	13 201	(8 516)
Non-controlling interest	4 505	(2 937)
Finance income/(expense) recognised directly in other comprehensive income, net of tax	**17 706**	**(11 453)**

27. Income Tax

	Year ended 31 December 2012	Year ended 31 December 2011
Income tax expense – current	(10 108)	(10 260)
Deferred tax income – origination and reversal of temporary differences	(17 322)	(7 796)
Income tax expense	**(27 430)**	**(18 056)**

The income before taxation for financial reporting purposes is reconciled to the tax expense as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Profit/ (loss) before taxation from continuing operations	111 867	(67 434)
Theoretical tax charge at statutory rate of 20%	22 373	(13 487)
Effect of different tax rates in other countries	(4 347)	5 989
Tax effect of items which are not deductible or assessable for taxation purposes:		
Derecognition of previously recognised tax losses	-	8 566
Current year losses for which no deferred tax asset was recognised	559	11 000
Non-taxable and non-deductible items	8 845	5 988
Income tax expense	**27 430**	**18 056**

The statutory income tax rate for companies of the Group registered in Russian Federation for the years 2012 and 2011 was 20%.

The statutory income tax rate for subsidiaries of the Group registered in Czech Republic for the 2012 and 2011 assessment periods was 19%.

	1 January 2012	Differences recognition and reversal	Exchange difference	Deferred tax recognised on other comprehensive income	31 December 2012
Tax effects of deductible temporary differences:					
Property, plant and equipment	5 490	(2 486)	286	-	3 290
Intangible assets	1 900	(1 797)	43	-	146
Accounts payable and accruals	3 224	578	207	-	4 009
Inventories	3 960	(2 625)	176	-	1 511
Provision for inventory	3 312	(1 200)	171	-	2 283
Accounts receivable	11 040	(7 256)	482	-	4 266
Provision for impairment of receivables	594	3 512	143	-	4 249
Tax loss carried forward	2 695	1 489	197	-	4 381
Other	5 558	(2 488)	272	-	3 342
Total deferred tax assets	**37 773**	**(12 273)**	**(1 977)**		**27 477**
Set off of tax	(23 948)				(19 139)
Net deferred tax assets	**13 825**				**8 338**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(10 422)	(2 458)	(608)	-	(13 488)
Intangible assets	(226)	213	(9)	-	(22)
Inventories	(7 591)	(1 267)	(485)	-	(9 343)
Accounts receivable	(3 488)	(6 074)	(341)	-	(9 903)
Provision for impairment of receivables	(6 542)	5 858	(257)	-	(941)
Accounts payable	(624)	(1 422)	(71)	-	(2 117)
Other	(2 057)	101	(122)	(42)	(2 120)
Total deferred tax liabilities	**(30 950)**	**(5 049)**	**(1 893)**	**(42)**	**(37 934)**
Set off of tax	23 948				19 139
Net deferred tax liabilities	**(7 002)**				**(18 795)**

27. Income Tax (Continued)

Comparative information for year 2011:

	1 January 2011	Differences recognition and reversal	Exchange difference	Deferred tax recognised on other comprehensive income	31 December 2011
Tax effects of deductible temporary differences:					
Property, plant and equipment	644	5 326	(480)	-	5 490
Intangible assets	200	1 859	(159)	-	1 900
Accounts payable and accruals	9 678	(6 505)	51	-	3 224
Inventories	7 981	(3 938)	(83)	-	3 960
Provision for inventory	3 394	109	(191)	-	3 312
Accounts receivable	10 276	1 415	(651)	-	11 040
Provision for impairment of receivables	777	(155)	(28)	-	594
Tax loss carried forward	14 477	(12 061)	279	-	2 695
Other	4 084	1 858	(384)	-	5 558
Total deferred tax assets	**51 511**	**(12 092)**	**(1 646)**	**-**	**37 773**
Set off of tax	(27 468)	-	-	-	(23 948)
Net deferred tax assets	**24 043**				**13 825**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(15 022)	4 243	357	-	(10 422)
Intangible assets	-	(248)	22	-	(226)
Inventories	(7 006)	(1 051)	466	-	(7 591)
Accounts receivable	(7 543)	4 052	3	-	(3 488)
Provision for impairment of receivables	(5 913)	(1 025)	396	-	(6 542)
Provision for repairs	-	(5)	5	-	-
Accounts payable	(337)	(333)	46	-	(624)
Other	(1 211)	(1 337)	115	376	(2 057)
Total deferred tax liabilities	**(37 032)**	**4 296**	**1 410**	**376**	**(30 950)**
Set off of tax	27 468	**-**	**-**	**-**	23 948
Net deferred tax liabilities	**(9 564)**				**(7 002)**

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, the deferred tax asset of one company of the Group cannot be offset against the deferred tax liability of another company.

The tax losses, for which the deferred tax asset was recognized as at the reporting date, expire in 2018-2022. Deferred tax assets of US$ 20 125 (31 December 2011: 19 566) have not been recognised in respect of the tax losses because it is not probable that future taxable profit will be available against which the Group can utilise these benefits therefrom. These tax losses in the amount of US$ 20 125 will expire in 2021-2022.

As at 31 December 2012 the Group has not recognized a deferred tax liability of US$ 35 644 (31 December 2011: US$ 24 074) in respect of temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

28. Provisions for Liabilities and Charges

	Provision for loss-making contracts	Provision for warranties	Provision for legal claims	Provision for penalty	Other provisions	Total
As at 1 January 2012	**21 846**	**7 122**	**46**	**14 732**	**1 915**	**45 661**
(Used)/ charge	(17 212)	5 276	258	(2 123)	(358)	(14 159)
Exchange differences	599	577	11	670	86	1 943
As at 31 December 2012	**5 233**	**12 975**	**315**	**13 279**	**1 643**	**33 445**
Less provisions for loss-making contracts netted off with contract related assets	(867)	-	-	-	-	(867)
As at 31 December 2012	**4 366**	**12 975**	**315**	**13 279**	**1 643**	**32 578**
Less amount included in other long-term liabilities	-	(3 198)	-	-	-	(3 198)
As at 31 December 2012	**4 366**	**9 777**	**315**	**13 279**	**1 643**	**29 380**

Comparative information for year 2011:

	Provision for loss-making contracts	Provision for warranties	Provision for legal claims	Provision for penalty	Other provisions	Total
As at 1 January 2011	**23 031**	**5 952**	**75**	**15 792**	**590**	**45 440**
(Used)/ charge	(705)	1 611	(27)	(462)	1518	1 935
Exchange differences	(480)	(441)	(2)	(598)	(193)	(1 714)
As at 31 December 2011	**21 846**	**7 122**	**46**	**14 732**	**1 915**	**45 661**
Less provisions for loss-making contracts netted off with contract related assets	(7 807)	-	-	(2 597)	-	(10 404)
As at 31 December 2011	**14 039**	**7 122**	**46**	**12 135**	**1 915**	**35 257**
Less amount included in other long-term liabilities	-	(2 874)	-	-	-	(2 874)
As at 31 December 2011	**14 039**	**4 248**	**46**	**12 135**	**1915**	**32 383**

Provision for loss-making contracts

Provisions for expected losses on loss-making contracts are recognised when the expected revenues are less than the expected costs to complete.

Provision for warranties

The Group provides warranties on certain products and undertakes to repair or replace items that fail to perform appropriately. A provision of US$ 12 975 (2011: US$ 7 122) has been recognised as at 31 December 2012 for expected warranty claims based on past experience of the level of repairs and returns.

Provision for legal claims

The amounts shown comprise gross provisions in respect of certain legal claims brought against the Group by customers.

Provision for penalty

The amounts shown comprise gross provisions in respect of penalties in connection with the late delivery of projects to customers.

29. Contingencies, Commitments and Operating Risks

Capital commitments

As at 31 December 2012 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for US$ 27 695 (31 December 2011: US$ 40 376) and from related parties for US$ 14 183 (31 December 2011: US$ 34 145).

Long-term contracts

For contingencies and operating risks related to long-term construction contracts, see note 4 and 21.

Taxation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances. The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20-percent price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

The new transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RR 3 billion in 2012, RR 2 billion in 2013, and RR 1 billion in 2014 and thereon, which approximates US$ 98 772 in 2012, US$ 65 848 in 2013 and US$ 32 924 in 2014 and thereon respectively). Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Environmental matters

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

Legal proceedings

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

29. Contingencies, Commitments and Operating Risks (Continued)

Guarantees

As at 31 December 2012, the Group had no guarantees for related parties loans payable to an intermediate parent company (31 December 2011: US$ 41 399). Guarantee fees are determined on a case-by-case basis and are charged annually (Note 8).

The Group's borrowings were secured by the intermediate parent company in the amount of US$ 7 730 (31 December 2011: US$ 5 715).

Operating leases

The Group leases a number of land plots under operating leases agreements. Operating leases agreements have different condition and rights for prolongation.

Operating lease rentals are payable as follows:

	Year ended 31 December 2012	**Year ended 31 December 2011**
Less than 1 year	(4 456)	(1 474)
From 1-5 years	(16 550)	(5 576)
More than 5 years	(37 952)	(49 786)
Total lease rentals payable	**(58 958)**	**(56 836)**

30. Earnings per Share

Earnings per share is calculated by dividing the net income attributable to participating shareholders by the weighted average number of ordinary shares in issue during the period, excluding the average number of ordinary shares purchased by the Group and held as treasury shares (Note 20).

Earnings per share from continuing operations are calculated as follows:

Basic earnings per share

	Year ended 31 December 2012	**Year ended 31 December 2011**
Weighted average number of ordinary shares outstanding (thousands)	35 480	35 480
Adjusted for weighted average number of treasury shares (thousands)	(4 551)	(4 551)
Weighted average number of ordinary shares in issue (thousands)	30 929	30 929
Profit/(loss) for the year attributable to the Group's equity holders	58 060	(47 367)
Basic earnings/(loss) per share	1,8772	(1,5315)

Diluted earnings per share

There have been no transactions that would result in a dilution of earnings per share.

31. Principal Subsidiaries

The principal subsidiaries consolidated within the Group and the share in subsidiaries held by the Group are as follows:

Entity	Country of incorporation	Activity	31 December 2012 % of share capital	31 December 2011 % of share capital
OJSC Izhorskiye Zavody (“Izhorskiye Zavody”)	Russia	Production of equipment for nuclear power plants and mining equipment	59,9	59,9
OMZ SpecStal (“SpecStal”) LLC	Russia	Production of specialty steels	50,4	50,4
OMZ Gornoe oborudovanie i tehnologii (“GoiT”) LLC [2]	Russia	Engineering and sales of mining equipment	-	66,3
CJSC Komplekt-Atom-Izhora	Russia	Engineering and installation of nuclear power plant equipment	100	100
IZ-Kartex LLC [1 2]	Russia	Production of mining equipment	66,3	66,3
Izhorskaya Energy Company LLC [1]	Russia	Production of steel constructions	59,9	59,9
OMZ LP LLC [1]	Russia	Production of steel mouldings	50,4	50,4
ŠKODA JS a.s.	Czech Republic	Production of equipment for nuclear power plants	100	100
LLC Izhorskiye svarochnyie materialy[1]	Russia	Production of drilling, mining and metallurgical equipment	59,9	59,9

[1] The percentage of share capital disclosed above is the effective ownership interest attributable to shareholders of the Company. The Company is able to control 100% of the shares of these subsidiaries

[2] The OMZ Gornoe oborudovanie i tehnologii LLC (“GoiT”) was liquidated by affiliating with IZ-Kartex LLC (P.G. Korobkova) (“Kartex”) in 2012.

32. Business Combinations and Disposals

IZ-Kartex LLC (P.G. Korobkova)(“Kartex”) and OMZ Gornoe oborudovanie i tehnologii LLC(“GoiT”)

In April 2011, the Group increased its ownership in Kartex in exchange for contributing its wholly owned subsidiary, GoiT, to the charter capital of Kartex. As a consequence of this transaction, the Group’s effective ownership of Kartex increased from 59.9% to 66.32% and its effective ownership in GoiT decreased from 100% to 66,32%.

The carrying amount of net assets of Kartex and GoiT as at the date of the transaction were US$ 30 971 and US$ 1 943 respectively. The net impact of the decrease in non-controlling interest in the amount US$ 1 153 has been recognized directly in equity and presented as an increase of retained earnings.

33. Financial Risk and Capital Management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program seeks to minimize potential adverse effects on financial performance.

Management has overall responsibility for the establishment and oversight of the Group's risk management framework.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US$ and EUR. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

The Group entities manages the foreign exchange risk against their functional currency by reducing the net positions in foreign currencies achieved through purchases of raw materials and services made in the same currency as that in which related contract revenue are expected.

Subsequent to the reporting date, the Russian Ruble has decreased in value by approximately 2% and the Czech Koruna has increased in value by approximately 4% respectively, against the US$. Management of the Group has not completed its analysis of the effect on the Group's operations and financial position; however, the sensitivity analysis provided below shows the effects of reasonably possible changes in foreign exchange rates on the Group's financial assets and liabilities as at the reporting date.

				31 December 2012
	EUR weakening by 25%	**EUR strengthening by 25%**	**US$ weakening by 25%**	**US$ strengthening by 25%**
Profit or loss				
Revaluation of cash	2 588	(2 588)	1	(1)
Revaluation of trade receivables	15 162	(15 162)	2 469	(2 469)
Revaluation of payables	(7 586)	7 586	(976)	976
Revaluation of loans issued	1 598	(1 598)	-	-
Short-term borrowings	(5 337)	5 337	-	-
Long-term borrowings	(6 023)	6 023	-	-
Derivative financial liabilities	(47)	47	-	-
Total for profit or loss	**355**	**(355)**	**1 494**	**(1 494)**
Other comprehensive income				
Derivative financial assets and liabilities	(38)	38	-	-

33. Financial Risk ad Capital Management (Continued)

(a) Market risk (Continued)

***(i) Foreign exchange risk* (Continued)**

Comparative information for year 2011:

				31 December 2011
	EUR weakening by 25%	**EUR strengthening by 25%**	**US$ weakening by 25%**	**US$ strengthening by 25%**
Profit or loss				
Revaluation of cash	2 954	(2 954)	2	(2)
Revaluation of trade receivables	23 910	(23 910)	729	(729)
Revaluation of payables	(20 806)	20 806	(2 405)	2 405
Revaluation of loans issued	17	(17)	-	-
Short-term borrowings	(3 360)	3 360	-	-
Long-term borrowings	(3 971)	3 971	-	-
Derivative financial liabilities	(323)	323	-	-
Total for profit or loss	**(1 525)**	**1 579**	**(1 674)**	**1 674**
Other comprehensive income				
Derivative financial assets and liabilities	385	(385)	-	-

(ii) Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. A change in interest rates may cause variations in interest income and expense. Monitoring of current market interest rates and analysis of the Group's interest-bearing position is performed by the corporate finance function as part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

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).

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments at fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect on profit or loss or equity. The carrying amount of fixed interest debt is of US$ 249 736 (31 December 2011: US$ 161 420)

Cash flow sensitivity analysis for variable rate instruments

The carrying amount of variable interest debt is of US$ 221 805 (31 December 2011: US$ 79 571). An increase of 1 percent in variable interest rates at the reporting date would have decreased profit or loss before tax by US$ 2 218 (2011: US$ 796). An increase of 1 percent in variable interest rates at the reporting date would have decreased profit or loss before tax by US$ 2 218 (2011: US$ 796). A decrease of 1 percent in interest rates at the reporting date would have increased profit or loss by US$ 2 218 (2011: US$ 796). These changes would have had no direct impact on other comprehensive income or equity.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

33. Financial Risk ad Capital Management (Continued)

(a) Market risk (Continued)

(iii) Derivatives

Nominal and fair value of derivatives:

	Nominal value 31 December 2012		Nominal value 31 December 2011		Fair value 31 December 2012		Fair value 31 December 2011	
	Derivatives with positive fair value	Derivatives with negative fair value	Derivatives with positive fair value	Derivatives with negative fair value	Positive	Negative	Positive	Negative
Hedging instruments								
Currency derivatives	-	-	-	8 425	-	-	-	(211)
Trading instruments								
Currency derivatives	9 749	17 242	6 481	43 864	137	(188)	22	(1 102)

Comparative information for year 2011:

Volume of hedged cash flows	**Within 1 year**		**1 – 5 years**	
Balance as at 31 December 2011	**Volume of hedged cash flows**	**Fair value of hedging derivatives**	**Volume of hedged cash flows**	**Fair value of hedging derivatives**
Currency risk exposure				
Hedging of receivables	5 185	(186)	3 241	(25)
Total	**5 185**	**(186)**	**3 241**	**(25)**

(b) Credit risk

Credit risk is a risk of financial loss to the Group if a customer or counterparty to transaction fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The Group's policy is generally to work with the customers on a partial prepayment basis. Significant advances payments are incorporated into contracts with customers. Bank guarantees and letters of credit are used to secure receivables from some customers. The Group's standard contractual terms include penalty interest on late payments to encourage timely settlement.

The Group has a decentralized credit risk management function that is performed on an individual company basis. Monitoring of credit quality of customers is performed by analyzing whether they are overdue, in a difficult financial position or subject to bankruptcy. Customers within the equipment for nuclear power plants segment are government agencies or companies controlled by government. As at 31 December 2012 trade receivables and accounts due from customers for contract work related to equipment for nuclear power plants segment amounted to US$ 138 607 (31 December 2011: US$ 130 016). Although collection of receivables can be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 10).

Cash and bank deposits are placed in financial institutions, which are considered to have minimal risk of default. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The cash and bank deposits are placed mainly in OJSC GazPromBank, which has a BBB- based on Fitch and Standard&Poors ratings.

33. Financial Risk and Capital Management (Continued)

(b) Credit risk (Continued)

The table summarizes the maximum exposure to credit risk:

Carrying amount as at 31 December 2012	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
Cash and cash equivalents	58 603	-	-	58 603
Trade receivables	78 508	43 138	5 238	126 884
Accounts due from customers for contract work	138 607	-	3 853	142 460
Other receivables	6 984	2 368	16 503	25 855
Short-term loans issued	102 554	0	24 552	127 106
Promissory notes	111	-	7 807	7 918
Positive fair values of financial derivatives	137	-	-	137
Available for-sale investments	4 538		31 288	35 826
Restricted cash	9 854	-	-	9 854
	399 896	**45 506**	**89 241**	**534 643**

Comparative information for year 2011:

Carrying amount as at 31 December 2011	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets Restated	Total Restated
Cash and cash equivalents	38 346	-	-	38 346
Trade receivables	67 063	51 823	3 616	122 502
Accounts due from customers for contract work	130 016	-	4 335	134 351
Other receivables	4 513	1 400	15 672	21 585
Short-term loans issued	356	4 864	25 530	30 750
Promissory notes	105	-	7 470	7 575
Positive fair values of financial derivatives	22	-	-	22
Available for-sale investments	4 300	-	29 516	33 816
Restricted cash	14 580	-	-	14 580
	259 301	**58 087**	**86 139**	**403 527**

In addition to the credit exposure disclosed above for recognised assets, the Group has no gross credit exposure for guarantees on loans to third and related parties (31 December 2011: US$ 41 399).

33. Financial Risk ad Capital Management (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach the managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable loss or risking damage to the Group's reputation.

Prudent liquidity risk management includes maintaining sufficient cash and availability of funding from an adequate amount of committed credit facilities. Group maintains flexibility in funding by maintaining availability under committed credit lines. As at 31 December 2012 the Group has unused credit facilities in the amount of US$ 416 148 (31 December 2011: US$ 293 296).

The table below presents the contractual maturities for the Group's financial liabilities 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 at significantly different amounts.

The maturity analysis of financial liabilities other than derivatives as at 31 December 2012 is as follows:

	Less than 1 year	1-2 years	2-5 years	More than five years	Total
Trade and other payables	235 984	4 431	2 883	-	243 298
Short-term borrowings	241 791	-	-	-	241 791
Long-term borrowings	-	77 715	149 104	-	226 819
Bonds	2 931	-	-	-	2 931
Bond coupon	118	-	-	-	118
Other interest payments	28 955	17 444	21 898	872	69 169
	509 779	**99 590**	**173 885**	**872**	**784 126**

The maturity analysis of financial liabilities other than derivatives as at 31 December 2011 is as follows:

	Less than 1 year	1-2 years	2-5 years	More than five years	Total
Trade and other payables	195 379	-	4 415	-	199 794
Short-term borrowings	142 428	-	-	-	142 428
Long-term borrowings	-	55 031	40 769	-	95 800
Bonds	-	2 765	-	-	2 765
Bond coupon	227	114	-	-	341
Guarantees	-	-	-	41 399	41 399
Other interest payments	14 951	5 216	6 050	-	26 217
	352 985	**63 126**	**51 234**	**41 399**	**508 744**

33. Financial Risk and Capital Management (Continued)

(c) Liquidity risk (Continued)

Contractual maturity obligation for derivatives as at 31 December 2012:

	Total	Less than 3 months	3 - 12 months	1 - 5 years
Derivatives with positive fair value				
Currency derivatives				
Inflow of financial resources	9 883	4 940	4 943	-
Outflow of financial resources	(9 750)	(4 847)	(4 903)	-
Derivatives with negative value				
Currency derivatives				
Inflow of financial resources	17 046	1 888	15 158	-
Outflow of financial resources	(17 242)	(1 911)	(15 331)	-

Contractual maturity obligation for derivatives as at 31 December 2011:

	Total	Less than 3 months	3 - 12 months	1 - 5 years
Derivatives with positive fair value				
Currency derivatives				
Inflow of financial resources	6 498	-	6 498	-
Outflow of financial resources	(6 481)	-	(6 481)	-
Derivatives with negative value				
Currency derivatives				
Inflow of financial resources	50 890	12 629	35 058	3 203
Outflow of financial resources	(52 290)	(13 205)	(35 844)	(3 241)

As at 31 December 2012, the Group had no outstanding guarantees on obligations (2011: US$ 41 399).

(d) Capital risk management

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. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-redeemable preference shares and non-controlling interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

From time to time the Company purchases its own shares on the market; the timing of these purchases depends on market prices. Buy and sell decisions are made on a specific transaction basis by management; the Group does not have a defined share buy-back plan.

There were no changes in the Group's approach to capital management during the year.

The Company is subject to external capital requirements that require that its net assets as determined in accordance with Russian Accounting Principles must exceed its charter capital at all times.

34. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading and available-for-sale investments and financial derivatives, including those classified as non-current assets held for sale (or disposal groups) are carried on the consolidated statement of financial position at their fair value. Cash and cash equivalents are carried at amortized cost, which approximates current fair value.

Fair values were determined based on quoted market prices except for certain investment securities available-for-sale for which there were no available external independent market price quotations (see Note 15).

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. The carrying amounts of financial assets approximate their fair values.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. The carrying amounts of liabilities carried at amortised cost approximate their fair values.

Derivative financial instruments. The fair value of derivatives is based on inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

35. Reconciliation of Classes of Financial Instruments with Measurement Categories

The following tables provide a reconciliation of classes of financial assets with the measurement categories as at 31 December 2012:

	Loans and receivables	Available for sale financial assets	Financial derivatives - hedging	Total
ASSETS				
Cash and cash equivalents (Note 9)				
Cash on hand and balances with the bank	52 665	-	-	52 665
Cash equivalents	5 938	-	-	5 938
Trade and other receivables (Note 10)				
Trade receivables	121 646	-	-	121 646
Accounts due from customers for contract work	138 607	-	-	138 607
Forward foreign exchange contracts – cash flow hedges	-	-	137	137
Other receivables	9 352	-	-	9 352
Other current financial assets (Note 12)				
Short-term loans issued	102 554	-	-	102 554
Restricted cash	9 854	-	-	9 854
Promissory notes	111	-	-	111
Other	4	-	-	4
Other non-current financial assets (Note 15)				
Available-for-sale investments	-	4 538	-	4 538
Non-current accounts receivables	3 554	-	-	3 554
Total financial assets	**444 285**	**4 538**	**137**	**448 960**
Non-financial assets	-	-	-	**949 736**
Total assets	**444 285**	**4 538**	**137**	**1 398 696**

All the Group's financial liabilities are carried at amortised cost except for currency derivatives used as hedging instruments which are carried at fair value of US$ 188 and included in trade and other accounts payable.

35. Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

Comparative information for 2011:

	Loans and receivables	Available for sale financial assets	Financial derivatives - hedging	Total
ASSETS				
Cash and cash equivalents (Note 9)				
Cash on hand and balances with the bank	36 727	-	-	36 727
Cash equivalents	1 619	-	-	1 619
Trade and other receivables (Note 10)				
Trade receivables	118 886	-	-	118 886
Accounts due from customers for contract work	130 016	-	-	130 016
Forward foreign exchange contracts – cash flow hedges	-	-	22	22
Other receivables	5 913	-	-	5 913
Other current financial assets (Note 12)				
Short-term loans issued	5 220	-	-	5 220
Available-for-sale investments	-	-	-	-
Restricted cash	14 580	-	-	14 580
Promissory notes	105	-	-	105
Other	-	-	-	-
Other non-current financial assets (Note 15)				
Available-for-sale investments	-	4 300	-	4 300
Non-current accounts receivables	4 459	-	-	4 459
Total financial assets	**317 525**	**4 300**	**22**	**321 847**
Non-financial assets	-	-	-	**799 395**
Total assets	**317 525**	**4 300**	**22**	**1 121 242**

All the Group's financial liabilities are carried at amortised cost except for currency derivatives used as hedging instruments which are carried at fair value of US$ 1 291 and included in trade and other accounts payable.

36. Events After the Reporting Period

In January 2013, the Group made a public offering of additional ordinary registered shares in the amount of 380 000 000 shares with a nominal value of RR 0.1 on the basis of the decision to increase the registered share capital. The offering price of one ordinary share is RR 40.08. The offer was fully subscribed with the Group receiving net cash proceeds of US$ 261 132. As a result of the additional share issue, an intermediate parent company has increased its effective ownership in the Company from 56,37% to 83,45%.