OJSC Power Machines and subsidiaries

Consolidated interim condensed financial statements
For the six months ended June 30, 2012

OJSC POWER MACHINES AND SUBSIDIARIES

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Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Statements

To the Management Board of OAO Power Machines

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO Power Machines (the "Company") and its subsidiaries (the "Group") as at June 30, 2012, and the related consolidated interim condensed statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the consolidated interim condensed financial statements (the "consolidated interim condensed financial statements"). Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at June 30, 2012 and for the six-month period then ended are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

ZAO KPMG

ZAO KPMG

August 27, 2012

OJSC POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INTERIM CONDENSED INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2012
(Tabular amounts in thousands of US dollars unless otherwise stated)

	Note	Six months ended June 30, 2012 (Unaudited)	Six months ended June 30, 2011 (Unaudited)
Revenue	7	925 279	866 926
Cost of sales		(637 096)	(598 680)
Gross profit		**288 183**	**268 246**
Distribution expenses		(33 511)	(33 591)
Administrative expenses		(64 030)	(50 685)
Other taxes and contributions		(6 288)	(4 900)
Share of profit of equity accounted investees (net of income tax)		196	-
Other income		2 859	1 556
Other expenses		(7 074)	(2 395)
Profit from operations		**180 335**	**178 231**
Impairment of non-current assets		-	(2 229)
Net other non-operating (expenses)		(2 942)	(2 980)
Profit before financing and taxation		**177 393**	**173 022**
Financial income		19 289	12 559
Financial expenses		(19 634)	(7 200)
Net foreign exchange gains/(losses)		12 816	(11 499)
Profit before income tax		**189 864**	**166 882**
Income tax expense		(32 944)	(28 864)
Profit for the period		**156 920**	**138 018**
Attributable to:			
shareholders of OJSC Power Machines		155 921	134 775
non-controlling interests		999	3 243
		156 920	**138 018**
Weighted average number of shares outstanding during the period		8 708 938 708	8 708 938 708
Basic and diluted earnings per share (US dollars)		0.0179	0.0155

These consolidated interim condensed financial statements were approved by the Management Board on August 27, 2012 and were signed on its behalf by:

Igor Y. Kostin
General Director

Vadim K. Chechnev
Chief Financial Officer

The consolidated interim condensed income statement is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 9 to 20.

OJSC POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2012

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

	Six months ended June 30, 2012 (Unaudited)	Six months ended June 30, 2011 (Unaudited)
Profit for the period	**156 920**	**138 018**
Other comprehensive income		
Currency translation differences	(3 643)	62 248
Actuarial gains on defined benefit plans	806	-
Total comprehensive income for the period	**154 083**	**200 266**
Attributable to:		
shareholders of OJSC Power Machines	161 137	192 127
non-controlling interests	(7 054)	8 139
	154 083	**200 266**

The consolidated interim condensed statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 9 to 20.

OJSC POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2012

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

	Note	June 30, 2012 (Unaudited)	December 31, 2011
Assets			
Current assets:			
Cash and cash equivalents		319 243	687 762
Short-term bank deposit		84 676	40 143
Trade accounts receivable		348 125	342 292
Restricted cash		32 490	-
Amounts due from customers under construction contracts	10	1 313 121	834 590
Advances paid to suppliers		228 971	149 738
Inventories	8	262 454	187 854
VAT recoverable		94 975	63 517
Other current assets		40 967	46 450
Total current assets		**2 725 022**	**2 352 346**
Non-current assets:			
Property, plant and equipment	6	788 256	544 733
Goodwill	15	305 965	3 492
Other intangible assets	6	106 964	55 368
Deferred tax assets		39 975	39 368
Trade accounts receivable		58 589	43 365
Restricted cash		2 944	-
Long-term financial investments		145 685	94 074
Other assets		1 465	1 102
Total non-current assets		**1 449 843**	**781 502**
Total assets		**4 174 865**	**3 133 848**
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		190 948	132 996
Amounts due to customers under construction contracts	10	76 024	41 781
Advances received from customers		2 235 563	1 837 702
Debt finance	9	202 608	601
Other taxes and social security payable		16 131	34 337
Provisions for contingencies	12	87 373	88 009
Other liabilities		103 494	49 833
Total current liabilities		**2 912 141**	**2 185 259**
Non-current liabilities:			
Debt finance	9	60 435	6 338
Deferred tax liabilities		43 521	12 588
Other liabilities		8 640	3 718
Total non-current liabilities		**112 596**	**22 644**
Total liabilities		**3 024 737**	**2 207 903**
Equity:			
Share capital		11 141	11 141
Additional paid-in capital		400 025	400 025
Foreign currency translation reserve		(28 905)	(33 315)
Retained earnings		651 293	489 088
Total equity attributable to the Company's shareholders		**1 033 554**	**866 939**
Non-controlling interests		116 574	59 006
Total equity		**1 150 128**	**925 945**
Total equity and liabilities		**4 174 865**	**3 133 848**

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 9 to 20.

OJSC POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2012
(Tabular amounts in thousands of US dollars unless otherwise stated)

	Six months ended June 30, 2012 (Unaudited)	Six months ended June 30, 2011 (Unaudited)
Cash flows from operating activities:		
Profit before financing and taxation	177 393	173 022
Adjustments for:		
Depreciation and amortization	39 911	31 163
Other	(19 085)	(1 711)
Operating profit before changes in working capital and provisions	**198 219**	**202 474**
Changes in operating assets and liabilities	(100 287)	(232 248)
Cash flows from / (used in) operations before income tax and interest paid	**97 932**	**(29 774)**
Interest paid	(19 126)	(7 200)
Income tax paid	(31 826)	(47 408)
Net cash from / (used in) operating activities	**46 980**	**(84 382)**
Investing activities:		
Additions to property, plant and equipment and intangible assets	(83 040)	(51 851)
Net cash flow from deposits	(74 819)	53 484
Acquisition of subsidiary, net of cash acquired	(286 624)	-
Net cash outflow from investing in related parties	(22 988)	-
Proceeds from disposal of property, plant and equipment and other assets	273	165
Interest received	21 730	10 346
Net cash (used in) / from investing activities	**(445 468)**	**12 144**
Financing activities:		
Proceeds from debt finance	67 489	-
Repayment of debt finance	(55 920)	(27 586)
Acquisition of non-controlling interests	(6 596)	-
Net cash from / (used in) financing activities	**4 973**	**(27 586)**
Net decrease in cash and cash equivalents	(393 515)	(99 824)
Effect of exchange rates on cash and cash equivalents	24 996	36 004
Cash and cash equivalents at January 1, 2012	687 762	521 346
Cash and cash equivalents at June 30, 2012	**319 243**	**457 526**

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 9 to 20.

OJSC POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2012
(Tabular amounts in thousands of US dollars unless otherwise stated)

	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total equity attributable to the Company's shareholders	Non-controlling interests	Total equity
Balance at January 1, 2011	**11 141**	**400 025**	**25 543**	**184 771**	**621 480**	**57 804**	**679 284**
Profit for the period (unaudited)	-	-	-	134 775	134 775	3 243	138 018
Foreign currency translation differences (unaudited)	-	-	57 352	-	57 352	4 896	62 248
Total comprehensive income for the period (unaudited)					192 127	8 139	200 266
Balance at June 30, 2011 (unaudited)	**11 141**	**400 025**	**82 895**	**319 546**	**813 607**	**65 943**	**879 550**
Balance at January 1, 2012	**11 141**	**400 025**	**(33 315)**	**489 088**	**866 939**	**59 006**	**925 945**
Profit for the period (unaudited)	-	-	-	155 921	155 921	999	156 920
Foreign currency translation differences (unaudited)	-	-	4 410	-	4 410	(8 053)	(3 643)
Actuarial gains on defined benefit plans (unaudited)	-	-	-	806	806	-	806
Total comprehensive income for the period (unaudited)	-	-	4 410	156 727	161 137	(7 054)	154 083
Transactions with owners recorded directly in equity (unaudited)							
Acquisition of subsidiary with non-controlling interests (unaudited)	-	-	-	-	-	77 456	77 456
Acquisition of non-controlling interests without a change in control (unaudited)	-	-	-	5 478	5 478	(12 074)	(6 596)
Dividends on preference shares of subsidiaries (unaudited)	-	-	-	-	-	(760)	(760)
Balance at June 30, 2012 (unaudited)	**11 141**	**400 025**	**(28 905)**	**651 293**	**1 033 554**	**116 574**	**1 150 128**

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 9 to 20.

1. BASIS OF PREPARATION

Statement of compliance

These consolidated interim condensed financial statements of OJSC Power Machines (the "Company") and its subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended December 31, 2011.

These consolidated interim condensed financial statements were approved by the Management Board on August 27, 2012.

Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these consolidated interim condensed financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2011 except for the estimates required for the fair value determination for the acquired assets and liabilities under IFRS 3 *Business combination*.

2. ACCOUNTING POLICIES

The accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended December 31, 2011, except that :

- the Group has adopted IAS 19 *Employee Benefits* as a result of acquisition through business combination of PJSC EMAlliance. See note 15;
- the Group has adopted those new/revised standards mandatory for financial annual periods beginning on January 1, 2012.

The adoption of these pronouncements and changes in accounting policy did not have a significant impact on the Group's consolidated interim condensed financial statements.

Prior period reclassification

Certain comparative information, based on the consolidated statement of financial position for the year ended December 31, 2011 and the consolidated interim condensed income statement for the six months ended June 30, 2011 has been reclassified. Reclassifications were based upon management's decision to enhance disclosure of the Group's results of operations through better presentation.

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

The effect of reclassifications is presented below:

	Before reclassification	After reclassification	Difference
Statement of financial position:			
Current assets:			
Trade accounts receivable	340 421	342 292	1 871
Advances paid to suppliers	142 483	149 738	7 255
Advances paid to related parties	10 923	-	(10 923)
Other current assets	44 653	46 450	1 797
Total current assets			-
Non-current assets:			
Trade accounts receivable	37 668	43 365	5 697
Trade accounts receivable from related parties	5 697	-	(5 697)
Long-term financial investments	21 464	94 074	72 610
Investments in related parties	72 610	-	(72 610)
Total non-current assets			-
Current liabilities:			
Trade accounts payable	127 898	132 996	5 098
Trade and other accounts payable to related parties	7 600	-	(7 600)
Advances received from customers	1 837 098	1 837 702	604
Other liabilities	47 935	49 833	1 898
Total current liabilities			-

	Before reclassification	After reclassification	Difference
Income statement:			
Other expenses	(7 604)	(2 395)	(5 209)
Impairment of non-current assets	-	(2 229)	2 229
Net other non-operating (expenses)	-	(2 980)	2 980
			-

3. FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2011.

4. OPERATING SEGMENTS

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

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

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

The accounting policies of the segment are the same as those applied by the Group in its consolidated interim condensed financial statements for the respective period.

The Management Board assesses the performance of the operating segment based on measures for sales, net profit, segment assets and segment liabilities and other information which is consistent with information in the Group's consolidated interim condensed financial statements.

The segment information as at and for the six-month period ended June 30, 2012 is as follows:

	Six months ended June 30, 2012	**Six months ended June 30, 2011**
Revenue	925 279	866 926
Profit before income tax	189 864	166 882
	June 30, 2012	**December 31, 2011**
Segment assets	4 174 865	3 133 848
Capital expenditures	83 040	177 852
Segment liabilities	3 024 737	2 207 903

5. INCOME TAX EXPENSE

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period.

6. PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS

During the six months ended June 30, 2012 the Group acquired assets with a cost of US$ 88.2 million, primarily related to the new plant being constructed by the Group in Metallostroy (St. Petersburg, Russia).

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

7. REVENUE

	Six months ended June 30, 2012	Six months ended June 30, 2011
Income from:		
Construction contract revenue	809 502	724 914
Sale of goods	75 563	70 904
Rendering services	34 436	64 465
Other	5 778	6 643
	925 279	**866 926**

In presenting information on the basis of geographical information, revenue is based on the geographical location of customers.

	Six months ended June 30, 2012	Six months ended June 30, 2011
Russia	747 471	734 383
Europe	87 832	45 613
Central and South America	38 566	6 673
China and Central Asia	28 157	20 518
India	16 111	55 790
South-East Asia	940	841
Other	6 202	3 108
	925 279	**866 926**

8. INVENTORIES

	June 30, 2012	December 31, 2011
Raw materials and consumables	133 654	95 359
Work in progress	106 558	77 152
Finished goods and goods for resale	56 724	62 522
Supplies	5 102	3 817
	302 038	238 850
Provision for obsolete inventories	(39 584)	(50 996)
	262 454	**187 854**

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

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

The movement in the inventory obsolescence provision was:

	June 30, 2012	June 30, 2011
Opening balance	(50 996)	(64 704)
Change in provision recognized in income statement	11 073	(3 981)
Amounts written off against provisions	-	3 731
Foreign exchange difference	339	(5 549)
Closing balance	**(39 584)**	**(70 503)**

9. DEBT FINANCE

The carrying value of the Group's interest-bearing debt finance is as follows:

	June 30, 2012	December 31, 2011
Non-current		
Bank loans	59 573	6 338
Finance lease liability	862	-
	60 435	**6 338**
Current		
Bank loans	199 656	380
Finance lease liability	2 952	221
	202 608	**601**

At the reporting date, debt finance carries either fixed interest rates between 1.6% and 9.8% per annum or floating rates of Libor plus spreads of between 2.2% and 5.5% per annum.

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

	June 30, 2012	December 31, 2011
Inventories and amounts due from customers under construction contracts	-	788
Revenue from planned supply of equipment in the future	138 180	-
Property, plant and equipment	71 530	23 422
	209 710	**24 210**

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

10. CONSTRUCTION CONTRACTS

Contracts in progress at the balance sheet date:

	June 30, 2012	December 31, 2011
Construction costs incurred plus recognized profits less recognized losses	6 286 978	4 564 872
Less: progress billings	(5 049 881)	(3 772 063)
	1 237 097	**792 809**

Recognised and included in the consolidated interim condensed financial statements as amounts due:

	June 30, 2012	December 31, 2011
From customers under construction contracts	1 313 121	834 590
To customers under construction contracts	(76 024)	(41 781)
	1 237 097	**792 809**

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

11. RELATED PARTY BALANCES AND TRANSACTIONS

Parent and ultimate controlling party

There has been no change in the Group's immediate parent company, ultimate parent company or ultimate controlling party since December 31, 2011.

Transactions with key management personnel

Apart from compensation, no transactions with the key management personnel took place during the six-month period ended June 30, 2012.

Other related party transactions

The Group's related party transactions, which were all with entities under common control, during the six-month period ended June 30, 2012 were as follows:

	June 30, 2012	December 31, 2011
Amounts receivable		
Advances paid to suppliers	3 304	7 255
Trade and other receivables	7 489	9 365
	10 793	**16 620**
Amounts payable		
Advances received from customers	904	604
Trade and other payables	1 028	6 996
	1 932	**7 600**

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

	Six months ended June 30, 2012	Six months ended June 30, 2011
Revenue		
Sales of goods	65	677
Services provided	299	34
	364	**711**
Purchases		
Purchases of goods	13 950	49 813
Purchases of services	8 756	8 936
Purchases of services, related to construction in progress	911	-
	23 617	**58 749**

	June 30, 2012	December 31, 2011
Deposits		
Short-term deposits (< 3 months)	1 315	94 084
Short-term deposits (3 - 12 months)	81 735	39 665
Long-term deposits	49 500	19 750
	132 550	**153 499**
Long-term financial investments		
Investments in shares of associates	24 593	25 563
Investments in joint ventures and other related parties	23 581	458
Long-term loans issued	45 708	46 589
	93 882	**72 610**

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

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

12. PROVISIONS FOR CONTINGENCIES

	Provisions for warranties	Provisions for onerous contracts	Total
Balance at January 1, 2011	**7 696**	**130 114**	**137 810**
Provisions made during the period	1 562	14 152	15 714
Provisions used during the period	(944)	(13 940)	(14 884)
Provision released during the period	-	(7 269)	(7 269)
Foreign currency translation difference	657	10 753	11 410
Balance at June 30, 2011	**8 971**	**133 810**	**142 781**
Balance at January 1, 2012	**1 055**	**86 954**	**88 009**
Provisions made during the period	1 386	6 413	7 799
Provisions used during the period	(2 293)	(13 995)	(16 288)
Provision released during the period	-	(58)	(58)
Acquisition through business combination	3 384	6 703	10 087
Foreign currency translation difference	(134)	(2 042)	(2 176)
Balance at June 30, 2012	**3 398**	**83 975**	**87 373**

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

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

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

Provision for warranties

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

Provision for onerous contracts

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

Provision for litigation

The Group has a number of claims including contract related disputes for contract delays or additional work which have arisen in the ordinary course of business. Contract related disputes are common to the business of the Group, particularly for large, long-term contracts. Based on the facts and circumstances existing on the date of these consolidated interim condensed financial statements, as well as historical experience with such claims and litigations, management estimates that possible losses associated with unresolved contract related disputes at June 30, 2012, may amount up to US$ 6.8 million (2011: US$ 7.5 million). No provision has been recognized in respect of these losses because management belives that it is possible, but not probable, that the losses would be actually incurred.

Other contingencies

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

13. EMPLOYEE BENEFITS

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

14. COMMITMENTS AND CONTINGENCIES

Long-term purchase contracts

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

Capital commitments

At the reporting date, the Group was committed to capital expenditure of approximately US$ 92.2 million (2011: US$ 83.5 million).

Social commitments

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

Insurance

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

Russian Federation tax and regulatory environment

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

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

Environmental liabilities

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

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

15. BUSINESS COMBINATION

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

On June 30, 2012 management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, the initial accounting for the acquisition of PJSC EMAlliance was determined provisionally.

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

A summary of assets and liabilities of PJSC EMAlliance on the date of acquisition is presented bellow:

Current assets:	
Cash and cash equivalents	28 353
Trade accounts receivable	78 833
Amounts due from customers under construction contracts	253 969
Advances paid to suppliers	51 417
Inventories	49 867
VAT recoverable	12 497
Other current assets	5 430
Non-current assets:	
Property, plant and equipment	233 423
Other intangible assets	53 168
Trade accounts receivable	23 515
Long-term financial investments	668
Other assets	882
Current liabilities:	
Debt finance	(138 572)
Trade accounts payable	(41 309)
Amounts due to customers under construction contracts	(10 188)
Advances received from customers	(304 289)
Other taxes and social security payable	(7 230)
Other liabilities	(19 793)
Provisions for contingencies	(10 087)
Non-current liabilities:	
Debt finance	(126 126)
Deferred tax liabilities	(39 234)
Other liabilities	(5 299)
Net identifiable assets, liabilities, and contingent liabilities	89 895
Non-controlling interest based on their proportionate interest in the recognised amounts of the assets and liabilities	(77 456)
Group's share of net assets acquired	12 439
Goodwill arising on acquisition	(302 538)
Consideration on escrow accounts	(34 444)
Consideration paid satisfied in cash	(280 533)
Cash acquired	28 353
Net cash outflow on acquisition	**(286 624)**

The trade and other receivables comprise gross contractual amounts due of US$ 135.5 million of which US$ 30.9 million was expected to be uncollectible at the acquisition date.

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

Had this business combination been effected on January 1, 2012, the revenue of the Group for the period would have been US$ 953.4 million.

The amounts of revenue and profit earned by the subsidiary from the date of acquisition to the reporting date were US$ 190.7 million and US$ 6.5 million respectively.

On April 12, 2012 the Group acquired additional 10 000 000 preference shares (or 3.52% of total issued shares) of OJSC Krasny Kotelschik (subsidiary of PJSC EMAlliance) for cash consideration of US$ 3.5 million. The carrying value of OJSC Krasny Kotelschik net assets at the date of increase of ownership was US$ 204.8 million. As a result of this transaction, the Group recognized a decrease in net assets attributable to non-controlling interest of US$ 7.2 million.

On June 13, 2012 the Group acquired additional 3 300 000 ordinary shares and 3 811 243 preference shares (or 2.5% of total issued shares) of OJSC Krasny Kotelschik (subsidiary of PJSC EMAlliance) for cash consideration of US$ 3.1 million. The carrying value of OJSC Krasny Kotelschik net assets at the date of increase of ownership was US$ 194.5 million. As a result of this transaction, the Group recognized a decrease in net assets attributable to non-controlling interest of US$ 4.9 million.

16. EVENTS AFTER THE REPORTING DATE

The Group is not aware of any material events subsequent to the reporting date which may impact or require disclosure in these consolidated interim condensed financial statements as at and for the six-month period ended June 30, 2012.