OMZ

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditors' Report

31 December 2011

Contents

INDEPENDENT AUDITORS' REPORT

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Independent Auditors' Report

To the Board of Directors of Open Joint Stock Company OMZ

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

Management was unable to obtain sufficient information to determine the fair value on initial recognition of an available-for-sale investment acquired from a related party in December 2008. Management was also unable to obtain sufficient information to determine whether this available-for-sale investment, which is stated at cost, is impaired as at 31 December 2011 and 2010 as required by IAS 39 *Financial Instruments: Recognition and Measurement*.

We were unable to satisfy ourselves as to the carrying amount of available-for-sale investments stated at USD 29 516 thousand and USD 31 181 thousand as at 31 December 2011 and 31 December 2010, respectively, by alternative means. As a result, we were unable to determine whether adjustments might have been found necessary in respect of available-for-sale investments as at 31 December 2011 and 31 December 2010, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows. Our opinions on the consolidated financial statements as at and for the year ended 31 December 2010 and on the current year's figures have been modified accordingly.

Qualified Opinion

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

ZAO KPMG

ZAO KPMG
27 April 2012

(in thousands of US dollars except per share amounts)

	Note	31 December 2011	31 December 2010
ASSETS			
Current assets:			
Cash and cash equivalents	9	38 346	176 057
Trade and other receivables	10	369 848	324 316
Advances to suppliers	10	105 482	87 944
Income tax receivable		7 768	7 725
Inventories	11	219 439	200 356
Other current financial assets	12	19 905	143 199
Total current assets		**760 788**	**939 597**
Non-current assets:			
Property, plant and equipment	13	307 058	339 386
Intangible assets	14	28 889	32 511
Deferred tax assets	27	13 825	24 043
Other non-current financial assets	15	38 275	106 209
Other non-current assets	16	1 923	19 130
Total non-current assets		**389 970**	**521 279**
Total assets		**1 150 758**	**1 460 876**
LIABILITIES			
Current liabilities:			
Trade and other payables	17	555 496	532 492
Provisions for liabilities and charges	28	32 383	43 170
Short-term borrowings	18	142 428	268 184
Income tax payable		1 692	3 836
Total current liabilities		**731 999**	**847 682**
Non-current liabilities:			
Long-term borrowings	18	98 565	193 522
Deferred tax liabilities	27	7 002	9 564
Provisions for liabilities and charges	28	2 874	2 270
Other long-term liabilities	19	6 700	5 612
Total non-current liabilities		**115 141**	**210 968**
Total liabilities		**847 140**	**1 058 650**
EQUITY			
Equity and reserves attributable to the Company's equity holders:			
Share capital	20	361	382
Share premium		89 704	94 763
Treasury shares	20	(38 357)	(40 520)
Hedging reserve		(150)	1 326
Currency translation reserve		21 755	16 083
Retained earnings		155 242	212 916
Equity attributable to owners of the Company		**228 555**	**284 950**
Non-controlling interests		75 063	117 276
Total equity		**303 618**	**402 226**
Total liabilities and equity		**1 150 758**	**1 460 876**

These consolidated financial statements were approved by management on 27 April 2012 and were signed on its behalf by:

Chief Executive Officer
Molibog I.Y.

Chief Accountant
Polevaya N.V.

(in thousands of US dollars except per share amounts)

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Continuing operations			
Sales		944 950	746 004
Cost of sales	22	(795 887)	(655 408)
Gross profit		**149 063**	**90 596**
Selling expenses	23	(27 696)	(26 779)
General and administrative expenses	24	(88 758)	(70 966)
Other operating income	25	9 869	9 246
Other operating expense	25	(63 597)	(18 336)
Operating loss		**(21 119)**	**(16 239)**
Finance income	26	22 589	12 356
Finance expense	26	(68 904)	(55 222)
Loss before taxation		**(67 434)**	**(59 105)**
Income tax (expense)//benefit	27	(18 056)	7 124
Loss from continuing operations for the year		**(85 490)**	**(51 981)**
Discontinued operation			
Gain on disposal of discontinued operation	32	-	61 647
Loss from discontinued operations, net of income tax			
- Loss from subsidiary	32	-	(12 004)
Profit from discontinued operations		**-**	**49 643**
Loss for the year		**(85 490)**	**(2 338)**
Other comprehensive income			
Foreign currency translation differences		(11 578)	(43 308)
Cash flow hedges, net of income tax		(1 540)	2 656
Other comprehensive loss for the year, net of income tax		**(13 118)**	**(40 652)**
Total comprehensive loss for the year		**(98 608)**	**(42 990)**
Profit/(loss) for the year attributable to:			
Equity holders of the Company		(47 367)	27 028
Non-controlling interest		(38 123)	(29 366)
Loss for the year		**(85 490)**	**(2 338)**
Comprehensive loss for the year attributable to:			
Equity holders of the Company		(57 548)	(13 390)
Non-controlling interest		(41 060)	(29 600)
Total comprehensive loss for the year		**(98 608)**	**(42 990)**
Earnings per share attributable to the equity holders of the Company (in US dollars)			
- basic	30	(1,5315)	0,8739
- diluted	30	(1,5315)	0,8739
Earnings from continuing operations per share attributable to the ordinary equity holders of the parent entity (in US dollars)			
- basic	30	(1,5315)	(0,7312)
- diluted	30	(1,5315)	(0,7312)

(in thousands of US dollars unless otherwise stated)

	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 cost 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 and advances received		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 intangibles		(84 537)
Proceeds from sale property, plant and equipment and intangibles		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**

(in thousands of US dollars unless otherwise stated)

	Note	Year ended 31 December 2010	Continuing operations for the year ended 31 December 2010	Discontinued operation for the year ended 31 December 2010
Cash flows from operating activities				
Loss before taxation from continuing operations		(70 675)	(59 105)	(11 570)
Adjustments for:				
Depreciation and amortization		48 589	41 708	6 881
Change in provisions for impairment and other provisions		10 266	9 239	1 027
Reversal of property, plant and equipment impairment	13, 25	(2 987)	(2 881)	(106)
Gain on disposal of property, plant and equipment	25	(4 268)	(4 268)	-
Gain on derecognition of financial liability	25	(396)	(396)	-
Net finance cost adjusted for foreign exchange differences	26	45 314	45 246	68
Net foreign exchange (gain)/loss	26	(1 750)	(2 633)	883
Loss from disposal of securities	25	253	253	-
Impairment of goodwill	14	936	936	-
Impairment of other non-current assets		2 747	2 747	-
Operating cash flows before working capital changes		**28 029**	**30 846**	**(2 817)**
Change in trade and other receivables and advances to suppliers		81 753	81 728	(529)
Change in inventories		(45 914)	(39 623)	(6 291)
Change in trade and other accounts payable		90 821	82 559	8 816
Cash provided from operations		**154 689**	**155 510**	**(821)**
Income taxes paid		(10 706)	(9 285)	(1 421)
Net cash provided from/(used in) operating activities		**143 983**	**146 225**	**(2 242)**
Cash flows from investing activities:				
Disposal of subsidiaries, net of cash disposed	32	141 220	141 220	-
Acquisition of subsidiaries, net of cash acquired	32	(3 636)	(3 636)	-
Purchase of property, plant and equipment and intangibles		(104 905)	(102 425)	(2 480)
Proceeds from sale property, plant and equipment and intangibles		8 309	8 309	-
Acquisition of financial assets		(32 647)	(32 647)	-
Proceeds from the disposal of financial assets		3 463	3 463	-
Interest received		6 052	6 050	2
Net proceeds from loans issued		(87 746)	(86 728)	(1 018)
Proceeds from sale of non-current assets held for sale		618	618	-
Net cash used in investing activities		**(69 272)**	**(65 776)**	**(3 496)**
Cash flows from financing activities:				
Proceeds from borrowings		729 637	714 418	15 219
Repayment of borrowings		(734 866)	(721 645)	(13 221)
Interest paid		(56 228)	(56 127)	(101)
Proceeds from disposal of non-controlling interest	32	152 607	152 607	-
Net cash provided from financing activities		**91 150**	**89 253**	**1 897**
Net increase/(decrease) in cash and cash equivalents		**165 861**	**169 702**	**(3 841)**
Effect of exchange rate changes on cash and cash equivalents		(755)	(420)	(335)
Cash and cash equivalents at the beginning of the year	9	**12 033**	**6 775**	**5 258**
Cash and cash equivalents of disposed companies		(1 082)	-	(1 082)
Cash and cash equivalents at the end of the year	9	**176 057**	**176 057**	**-**

(in thousands of US dollars unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Treasury shares**	**Hedging reserve**	**Currency translation reserve**	**Retained earnings**	**Non-controlling interest**	**Total equity**
Balance as at 1 January 2010	**384**	**95 493**	**(40 832)**	**(1 330)**	**56 796**	**169 688**	**13 945**	**294 144**
Loss for the year	-	-	-	-	-	27 028	(29 366)	(2 338)
Other comprehensive income:								
Currency translation difference	(2)	(730)	312	-	(40 713)	(1 941)	(234)	(43 308)
Cash flow hedges, net of tax	-	-	-	2 656	-	-	-	2 656
Total comprehensive income for the year ended 31 December 2010	**(2)**	**(730)**	**312**	**2 656**	**(40 713)**	**25 087**	**(29 600)**	**(42 990)**
Changes in ownership interests in subsidiaries that do not result in a loss of control:								
Disposal of non-controlling interest	-	-	-	-	-	18 141	132 931	151 072
Total changes in ownership interests in subsidiaries that do not result in a loss of control for the year ended 31 December 2010	**-**	**-**	**-**	**-**	**-**	**18 141**	**132 931**	**151 072**
Balance as at 31 December 2010	**382**	**94 763**	**(40 520)**	**1 326**	**16 083**	**212 916**	**117 276**	**402 226**
Balance as at 1 January 2011	**382**	**94 763**	**(40 520)**	**1 326**	**16 083**	**212 916**	**117 276**	**402 226**
Loss for the year	-	-	-	-	-	(47 367)	(38 123)	(85 490)
Other comprehensive income:								
Foreign currency translation differences	(21)	(5 059)	2 163	64	5 672	(11 460)	(2 937)	(11 578)
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)**	**5 672**	**(58 827)**	**(41 060)**	**(98 608)**
Changes in ownership interests in subsidiaries that do not result in a loss of control:								
Net effect of the acquisition and disposal of non-controlling interests (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	**361**	**89 704**	**(38 357)**	**(150)**	**21 755**	**155 242**	**75 063**	**303 618**

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 2011. These consolidated financial statements incorporate the operations of OJSC OMZ (the "Company") and its subsidiaries (together referred to as the "Group" or "OMZ").

OJSC OMZ 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 32. These are incorporated under the Laws of the Russian Federation and the Czech Republic. For details of changes in the Group structure during 2011 refer to Note 31.

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 machinery equipment and mining equipment in the Russian Federation.

Registered address.

The Company's current registered address is:

Russian Federation
Moscow
2nd Ambulatornii Proezd, 8 building 3

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.

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 2011 the principal rates of exchange used for translating foreign currency balances were US$ 1 = RR 32,1961 (2010: US$ 1 = RR 30,4769) and CZK 1=RR 1,62 (31 December 2010 CZK 1=RR 1,59).

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.

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.

3. Summary of Significant Accounting Policies (Continued)

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.

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.

3. Summary of Significant Accounting Policies (Continued)

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.

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.

3. Summary of Significant Accounting Policies (Continued)

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.

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).

3. Summary of Significant Accounting Policies (Continued)

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.

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.

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.

3. Summary of Significant Accounting Policies (Continued)

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.

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.

3. Summary of Significant Accounting Policies (Continued)

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.

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 (d) 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.

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.

3. Summary of Significant Accounting Policies (Continued)

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.

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.

3. Summary of Significant Accounting Policies (Continued)

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 have been determined based on value-in-use calculations.

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 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 used indetermination 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. Refer to 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$ 13 475 of tax losses will be utilised in the future (31 December 2010: US$ 72 385), the effect of which caused a decrease of the deferred tax liability recorded as at 31 December 2011 by US$ 2 695 (31 December 2010: US$ 14 477). 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 2011, management assessed that US$ 97 830 of previously incurred losses would not be utilized before expiration due to lack of sufficient expected tax profits. Consequently US$ 19 566 of deferred tax assets were derecognized.

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 the actual gross margins on the Group's contracts are 10% lower than management's estimates as at 31 December 2011, 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$ 32 965 (31 December 2010: US$ 27 739) with a corresponding effect on operating profit.

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

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

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.

Discontinued operations.

During 2010 the Group disposed 100% share in subsidiary Pilsen Steel s.r.o., which manufactures specialty steel in Czech Republic and 100% share in its subsidiary Pilsen Estate s.r.o.

Although Pilsen Steel s.r.o. and OMZ Spetstal LLC are both engaged in the manufacture of speciality steels, management considers that the sale of Pilsen Steel s.r.o is the disposal of a separate major line of business because the types of steel produced by this business differ significantly in their sophistication and properties than the products manufactured by OMZ Spetstal LLC. As a consequence, Pilsen Steel’s products are often used to construct assets that have entirely different end uses and are consumed by different types of customers than products manufactured by OMZ Spetstal LLC.

Pilsen Steel s.r.o. offers a limited range of relatively standardized steel products that can be used in general industry. OMZ Spetstal LLC is engaged primarily in the manufacture of a wide range of proprietary advanced engineered steel products which can be used for highly specialized industrial purposes in extreme operating environments including for use in the manufacture of sophisticated nuclear equipment.

Consequently, in accordance with the requirements of IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, management has presented the subsidiaries Pilsen Steel s.r.o. , Pilsen Estate s.r.o as a discontinued operation. Comparative data has been presented as if this business has been sold from the beginning of the corresponding comparative period.

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

In 2011 the Group adopted new Standards, amendments to Standards and Interpretations which became effective as at 1 January 2011 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 2011 and did not have a significant impact on the Group's accounting policies:

- Revised IAS 24 Related Party Disclosures introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The new Standard had no impact on the Group’s financial position or performance.

- *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 2011. 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 2011, 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 remaining parts of the standard are expected to be issued during 2012. 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.

- 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.

- 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 2011. 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.

(in thousands of US dollars unless otherwise stated)

7. Segment Information

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.
- A wide range of spare parts.
- 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.

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.

In 2010 the Group disposed of Pilsen Steel s.r.o that represented a separate operating segment, engaged in steel production and processing of metal products (Note 32).

The Board of Directors evaluate the results of operations, assets and liabilities of the operating segments on the basis of accounting data prepared in accordance with the accounting laws of the country of registration of the particular subsidiary.

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 2011				
Segment sales	**244 179**	**223 950**	**184 699**	**652 828**
Intersegment sales	19 254	82 333	1 567	103 154
External sales	224 925	141 617	183 132	549 674
Reportable segment profit/(loss) for the year	**1 067**	**(29 073)**	**7 480**	**(20 526)**
Interest income	**1 840**	**165**	**1 054**	**3 059**
Interest expense	**(10 618)**	**(10 554)**	**(5 128)**	**(26 300)**
Depreciation	**(5 568)**	**(15 541)**	**(2 295)**	**(23 404)**
Income tax benefit/(expense)	**(991)**	**6 147**	**(3 081)**	**2 075**

(in thousands of US dollars unless otherwise stated)

7. Segment Information (Continued)

Czech Republic:

	SKODA JS a.s
Year ended 31 December 2011	
Segment sales	**279 800**
Intersegment sales	-
External sales	279 800
Reportable segment net profit/(loss) for the year	**12 140**
Interest income	**166**
Depreciation	**(5 780)**
Income tax expense	**(3 458)**

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 2011						
External sales	485 758	164 040	192 137	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	(8 386)
Other profit from non-reportable segments	10 299
Recognition of provision for penalty	(2 190)
Differences in the recognition of provision for loss-making contracts	491
Differences in recognition of revenue for construction contracts	18 218
Elimination of income and expense arising from intragroup transactions with non-reportable segments	(10 687)
Impairment of PPE and IA	(51 326)
Recognition of provision for loans given	(26 150)
Differences in recognition of provision for future expenses and payments	(1 654)
Differences in recognition and measurement effect of other differences between statutory accounting and IFRSs	(14 105)
Loss for the year	**(85 490)**

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 operating segments	829 474
External sales for segments	**829 474**
Other external sales	78 803
Effect of difference in approach to revenue recognition under the percentage of completion method	18 218
Effect of timing difference for revenue recognition	21 009
Recognition and measurement of other differences between statutory accounting and IFRS	(2 554)
Sales in the statement of comprehensive income	**944 950**

(in thousands of US dollars unless otherwise stated)

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	686 067	381 927	138 257	1 206 251
Total liabilities of segments	511 793	260 169	98 187	870 149

Czech Republic:

	SKODA JS a.s
Total assets of segments	238 984
Total liabilities of segments	144 163

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 statement of financial position is as follows:

Total assets for segments	**1 445 235**
Other assets from non-reportable segments	799 080
Elimination of amounts due to and due from entities consolidated within the Group	(491 607)
Elimination of investments in subsidiaries	(311 972)
Netting-off of due to and due from under construction contracts	(182 644)
Unrealized income and expense arising from intragroup transactions	(2 655)
Recognition and measurement effect of other differences between statutory reporting and IFRSs including:	
- recognition of property, plant and equipment acquired using finance leases	894
- purchase accounting adjustments associated with historical business combinations and differences in useful economic lives for property, plant and equipment and intangible assets	(9 876)
- difference in valuation of accounts receivable	(1 673)
- difference in valuation of inventory	(37 594)
- difference in valuation of property, plant and equipment	(51 045)
- difference in valuation of loans given	(25 530)
- other differences	20 145
Total assets in statement of the financial position	**1 150 758**

Total liabilities for segments	**1 014 312**
Other liabilities from non-reportable segments	484 786
Elimination of amounts due to and due from entities consolidated within the Group	(491 607)
Netting-off of due to and due from under construction contracts	(182 644)
Effect from elimination of unrealised margin under construction contracts	13 219
Effect of other recognition and measurement differences between statutory accounting and IFRSs	9 074
Total liabilities in 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	602 401	274 346
OECD countries	262 623	63 524
Other regions	79 926	-
Total	**944 950**	**337 870**

(in thousands of US dollars unless otherwise stated)

7. Segment Information (Continued)

Comparative information for 2010 year:

Continuing operations:

Russia:

	Izhorskiye Zavody OJSC	OMZ-Specstal LLC	IZ-KARTEKS LLC	Total
Year ended 31 December 2010				
Segment sales	**177 375**	**174 976**	**120 496**	**472 847**
Intersegment sales	33 883	86 492	984	121 359
External sales	143 492	88 484	119 512	351 488
Reportable segment profit/(loss) for the year	**8 966**	**(27 959)**	**4 384**	**(14 609)**
Interest income	**561**	**1 195**	**305**	**2 061**
Interest expense	**(17 148)**	**(12 181)**	**(6 330)**	**(35 659)**
Depreciation	**(4 133)**	**(8 176)**	**(1 380)**	**(13 689)**
Income tax benefit/(expense)	**(2 318)**	**6 241**	**(1 377)**	**2 546**

Czech Republic:

	SKODA JS a.s
Year ended 31 December 2010	
Segment sales	**239 391**
Intersegment sales	-
External sales	239 391
Reportable segment profit for the year	**13 008**
Interest income	**138**
Interest expense	**(12)**
Depreciation	**(2 651)**
Income tax expense	**(4 309)**

Discontinued operation:

Czech Republic:

	PILSEN STEEL s.r.o.
Year ended 31 December 2010	
Segment sales	**75 222**
Intersegment sales	502
External sales	74 720
Reportable segment profit for the year	**(13 088)**
Interest income	**2**
Interest expenses	**(902)**
Depreciation	**(6 661)**
Income tax expense	**(913)**

(in thousands of US dollars unless otherwise stated)

7. Segment Information (Continued)

The sales by types of products presented by following:

Continuing operations:

	Nuclear equipment	Special steel	Mining equipment	Oil and gas equipment	Other	Total
Year ended 31 December 2010						
External sales	345 037	144 620	120 946	36 955	98 446	746 004

Discontinued operation:

	Special steel	Total
Year ended 31 December 2010		
External sales	75 429	75 429

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

	Year ended 31 December 2010
Net loss of segments (excluding discontinued operations)	(1 601)
Other profit from non-reportable segments	15 224
Loss from discontinued operation	(12 004)
Differences in the recognition of provision for penalty	(12 184)
Loss from impairment goodwill	(936)
Differences in the recognition of provision for loss-making contracts	(23 113)
Gain on disposal of discontinued operation	61 647
Differences in the recognition of revenue for construction contracts	(7 546)
Elimination of income and expense arising from intragroup transactions with non-reportable segments	(9 495)
Differences in the recognition and measurement effect of other differences between statutory accounting and IFRSs	(12 330)
Loss for the year	**(2 338)**

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 2010
External sales for operating segments	590 879
External sales for discontinued operation	74 720
External sales for segments	**665 599**
Other external sales	167 980
Effect of adjustment for external sales recorded as discontinued operation (Note 32)	(75 429)
Recognition of revenue by the percentage of completion method	(7 546)
Recognition and measurement of other differences between statutory accounting and IFRS	(4 600)
Sales in the statement of comprehensive income	**746 004**

(in thousands of US dollars unless otherwise stated)

7. Segment Information (Continued)

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	567 883	361 080	117 561	1 046 524
Total liabilities for segments	379 692	199 247	87 107	666 046

	SKODA JS a.s.
Total assets for segments	215 717
Total liabilities for segments	135 937

The effect of the adjustments to reportable segment assets and liabilities as at 31 December 2010 to present in conformity with IFRSs as reported in statement of financial position is as follows::

Total assets for segments	**1 262 241**
Other assets of non-reportable segments	1 332 180
Elimination of amounts due to and due from entities consolidated within the Group	(579 251)
Elimination of investments in subsidiaries	(339 007)
Netting-off of due to and due from under construction contracts	(143 033)
Netting-off of advances given/received with related payables/receivables	(43 998)
Unrealized income and expense arising from intragroup transactions	(16 045)
Recognition and measurement effect of other differences between statutory reporting and IFRSs including:	
- recognition of property, plant and equipment acquired using finance leases	3 685
- purchase accounting adjustments associated with historical business combinations and differences in useful economic lives for property, plant and equipment and intangible assets	5 029
- difference in valuation of accounts receivable	(20 470)
- difference in valuation of inventory	(9 412)
- other differences	8 957
Total assets in statement of financial position	**1 460 876**

Total liabilities for segments	**801 983**
Other liabilities of non-reportable segments	933 427
Elimination of amounts due to and due from entities consolidated within the Group	(579 251)
Netting-off of due to and due from under construction contracts	(143 033)
Netting-off of advances given/received with related payables/receivables	(43 998)
Recognition of provision for loss-making contracts	23 113
Recognition of provision for penalty	12 184
Recognition of provisions in accordance with IFRS	40 542
Effect of other recognition and measurement differences between statutory accounting and IFRSs	13 683
Total liabilities in statement of financial position	**1 058 650**

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 2010	Non-current assets 31 December 2010
Russian Federation	452 034	307 113
OECD countries	260 321	83 914
Other regions	33 649	-
Total	**746 004**	**391 027**

(in thousands of US dollars unless otherwise stated)

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.

The Company’s immediate parent company is CJSC “Forpost-Management”.

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 2011 CJSC “Forpost-Management” owns 46,31% of the Company’s total outstanding ordinary shares (31 December 2010: 49,90%). CJSC “Forpost-Management” 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, they control in excess of 50% of the voting rights of the outstanding ordinary shares.

During 2010 year the Group’s immediate and intermediate parent companies have acquired direct non-controlling interests in two of the Group’s subsidiaries in exchange for US$ 152 607 (Note 32). The proceeds from the sale of the stakes in these two subsidiaries have been used to retire borrowings and finance lease obtained from an intermediate parent company.

During the year 2010 the Group repaid liabilities under financial lease of plant and equipment acquired from its immediate parent company for amount US$ 87 758. During the year 2010 the Group in addition acquired plant and equipment of US$ 12 245 (2010: US$ 60 442) from its immediate parent company.

The outstanding balances with the related parties were as follows:

	31 December 2011		31 December 2010	
	Immediate and intermediate parent companies	**Entities under common control**	**Immediate and Intermediate parent companies**	**Entities under common control**
Gross amount of trade receivables	7	15 065	147	9 304
Other receivables	984	3 808	1 251	3 790
Advances issued	71	39 270	211	30 787
Loans issued	248	8 709	-	27 520
Other current assets	-	105	-	111
Other non-current financial assets	-	-	8 203	-
Trade and other payables	(2 205)	(12 913)	(5 396)	(11 754)
Advances received	(48 174)	(4 949)	(50 891)	(22 134)
Loans and borrowings	(130 660)	(8)	(118 591)	(31)
Non-convertible bonds	-	-	(20 061)	-

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.

(in thousands of US dollars unless otherwise stated)

8. Balances and Transactions with Related Parties (Continued)

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

	Year ended 31 December 2011		Year ended 31 December 2010	
	Immediate and intermediate parent company	**Entities under common control**	**Immediate and intermediate parent company**	**Companies under common control**
Sales of goods	87	45 406	90	23 522
Purchases	(1 168)	(30 611)	(1 724)	(22 240)
Interest income	68	2 676	73	2 578
Interest expense	(7 863)	(14)	(28 155)	(441)
Proceeds from borrowing	650 565	503	323 168	-
Repayment of loans	(628 971)	(528)	(338 517)	(5 436)
Purchases of other non-current financial assets	-	-	8 203	-
Income from disposal of investments within structured transaction (Note 18)	-	14 403	-	-

During 2010, the Group also purchased advisory services related to disposal of discontinued operation from an related party in amount of US$ 1327 (Note 32).

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 2011 the aggregate compensation to the directors included in general and administrative expenses in the consolidated statement of comprehensive income amounted to US$ 14 096 (31 December 2010: US$ 5 654). These figures include termination benefits in the amount of US$ 699 for the year ended 31 December 2011 (31 December 2010: US$ 635). All other benefits accrued to key management are short term employee benefits.

Guarantees

As at 31 December 2011, the Group had outstanding guarantees on loans of US$ 41 399 (31 December 2010: US$ 29 120) issued to entity an under common control for a loan payable to an intermediate parent company. 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 at interest rates of between 8-13 % per annum.

9. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	31 December 2011	**31 December 2010**
RR denominated cash on hand and balances with banks	3 288	4 120
CZK denominated cash on hand and balances with banks	21 573	14 148
EUR denominated cash on hand and balances with banks	11 817	132 828
US$ denominated cash on hand and balances with banks	6	10
Other currency denominated balances with bank	43	47
Cash equivalents in RUR	11	677
Cash equivalents in CZK	1 608	-
Cash equivalents in EUR	-	24 227
Total cash and cash equivalents in the Statement of Financial Position	**38 346**	**176 057**
Bank overdraft	(1 551)	-
Total cash and cash equivalents in the Statement of Cash Flows	**36 795**	**176 057**

The effective annual interest rate of bank balances payable on demand is 0,1% (31 December 2010: 0,1%).

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

(in thousands of US dollars unless otherwise stated)

10. Trade and Other Receivables

	31 December 2011	31 December 2010
Trade receivables	118 886	90 862
Accounts due from customers for construction work	130 016	101 843
Forward foreign exchange contracts – cash flow hedges	22	926
VAT receivable	14 480	23 944
VAT on advances from customers	98 870	77 273
Other taxes receivable	1 661	1 157
Other receivables	5 913	28 311
Total trade and other receivables	**369 848**	**324 316**
Advances to suppliers	105 482	87 944

Accounts receivable are denominated in RR except for US$ 2 916 denominated in US$, US$ 71 610 denominated in CZK and US$ 95 638 denominated in EUR as at 31 December 2011 (31 December 2010: US$ 6 700 denominated in US$, US$ 72 927 denominated in CZK, US$ 93 744 denominated in EUR$ and US$ 20 denominated in other).

Trade receivables in amount of US$ 85 730 (31 December 2010: nil) are pledged under loan agreements (Note 18).

As at 31 December 2011 trade and other accounts receivable, advances to suppliers and VAT receivable of US$27 383 (31 December 2010: US$ 25 512) 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.

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

	31 December 2011	31 December 2010
Trade receivables	(3 616)	(6 547)
Accounts due from customers for construction work	(4 335)	-
Advances to suppliers	(2 756)	(1 586)
Other receivables	(15 672)	(15 141)
VAT receivable	(1 004)	(2 238)
	(27 383)	**(25 512)**

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 2010	**(15 896)**		**(1 860)**	**(13 763)**	**(1 734)**	**(33 253)**
Provision charged	(5 053)	-	(895)	(5 883)	(536)	(12 367)
Provision used	7 790	-	483	4 256	-	12 529
Provision reversed	5 150	-	455	238	17	5 860
Acquisition through purchase of subsidiaries	-	-	-	(102)	-	(102)
Disposal through the sale of subsidiaries	1 239	-	197	-	-	1 436
Exchange differences	223	-	34	113	15	385
As at 31 December 2010	**(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)**

As at 31 December 2011, trade receivables of US$ 53 223 (31 December 2010: US$ 8 143) were past due but not impaired. These relate to a number of unrelated customers with no recent history of default. The ageing of these trade receivables is as follows:

	31 December 2011	31 December 2010
Less than 6 months	51 003	8 143
From 6 to 12 months	2 220	-
More than 12 months	-	-
Total trade receivable past due not impaired	**53 223**	**8 143**

(in thousands of US dollars unless otherwise stated)

11. Inventories

	31 December 2011	31 December 2010
Raw materials	112 523	98 356
Work in progress	94 634	65 603
Finished goods	21 733	45 906
Goods in transit	9 739	8 389
Provision for inventory	(19 389)	(17 976)
Other	199	78
Total Inventories	**219 439**	**200 356**

As at 31 December 2011 there are no inventories pledged under loan agreements. As at December 2010 certain inventories totalling US$ 16 406 were provided as security under loan agreements (Note 18).

As at 31 December 2011 inventory in amount US$ 7 538 are carried at their net realisable value which is fair value less costs to sell (31 December 2010: nil).

Movements in the provision for inventory are as follows:

	Provision for inventory
As at 1 January 2010	**(43 444)**
Provision charged	(7 177)
Provision reversed	20 116
Provision used	885
Disposal of subsidiaries	10 278
Exchange differences	1 366
As at 31 December 2010	**(17 976)**
Provision charged	(7 354)
Provision reversed	4 700
Provision used	177
Exchange differences	1 064
As at 31 December 2011	**(19 389)**

12. Other Current Financial Assets

	31 December 2011	31 December 2010
Short-term loans issued	30 750	115 296
Provision for short-term loans issued	(25 530)	(2 034)
Promissory notes	7 575	7 899
Provision for promissory notes	(7 470)	(7 788)
Restricted cash	14 580	606
Available-for-sale investments stated at cost	-	28 710
Other	-	510
Total Other Current Assets	**19 905**	**143 199**

Restricted cash of US$ 14 580 as at 31 December 2011 (31 December 2010: US$ 606) 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.

Promissory notes past due from former subsidiary (Note 32) and short-term loans issued with a recent history of default were provided in full.

The impairment loss recognized for loans issued to related parties was in amount US$ 2 327 in 2011 (2010: US$ 1 759).

During 2010, the Group acquired available-for-sale investments under a structured transaction, that were sold in 2011 (Note 18).

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 2010	**(283)**	**(8 119)**
Provision charged	(1 759)	
Provision used	-	33
Exchange differences	8	298
As at 31 December 2010	**(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)**

(in thousands of US dollars unless otherwise stated)

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 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**
Exchange differences	(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**

Comparative information for 2010:

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
Balance as at 1 January 2010					
Cost	159 522	350 938	55 604	33 060	599 124
Accumulated depreciation	(51 738)	(128 223)	(52 201)	-	(232 162)
Impairment loss recognised	(5 431)	(4 079)	(5)	-	(9 515)
Net book value as at 1 January 2010	**102 353**	**218 636**	**3 398**	**33 060**	**357 447**
Exchange differences	(3 936)	(7 101)	(73)	(1 718)	(12 828)
Additions	59 171	44 195	569	18 664	122 599
Acquisition of subsidiaries (see Note 32)	2 247	1 496	-	-	3 743
Transfers	216	4 841	3	(5 060)	-
Disposals	(1 206)	(1 273)	(20)	(1 553)	(4 052)
Disposals of subsidiaries	(22 838)	(49 035)	(17)	(14 780)	(86 670)
Impairment reversal	2 653	329	5	-	2 987
Depreciation	(4 329)	(38 413)	(1 098)	-	(43 840)
Net book value as at 31 December 2010	**134 331**	**173 675**	**2 767**	**28 613**	**339 386**
Balance as at 31 December 2010					
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 31 December 2010	**134 331**	**173 675**	**2 767**	**28 613**	**339 386**

As at 31 December 2011 bank borrowings are secured with property, plant and equipment with the carrying value of US$ 14 958 (31 December 2010: US$ 5 421) (Note 18).

Land and buildings include 120 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 26 plots in Kolpino (Russia) with a total area of 784 433 square meters.

The amount of borrowing costs capitalized during the 2011 is US$ 2 400 (2010: US$ 398) using a capitalization rate of 8% (2010: 12%).

13. Property, Plant and Equipment (Continued)

Impairment of property, plant and equipment

During 2011, the financial performance of LLC OMZ-Spetsstal significantly underperformed budget with the sales growth not resulting in an improvement in the operating result compared to the prior year. Management considered this factor as an indicator of potential impairment of LLC OMZ-Specstal, which represents a separate cash generating unit. Consequently management carried out an impairment test of the carrying value of the property, plant and equipment of the cash generating unit. The recoverable amount has been determined based on value in use. Cash flows were projected based on historical operating results and a five-year cash flow forecast.

Assumptions underlying the impairment testing are described below:

- The revenue growth was forecasted based on the actual revenue amount for 2011 year and expected growth rate of revenue.
- The sales volumes were forecasted based on the actual sales volume in tones for 2011 year and expected growth rates of sales volumes .
- Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) in absolute terms was forecasted based on the EBITDA/Revenue ratio.
- A pre-tax discount rate of 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.
- A terminal value was derived at the end of a five-year forecast period with 3,0% terminal growth rate.

The values assigned to the key assumptions represent management's assessment of future trends in specialty based steel production industry and are based on both external sources and internal sources (historic data). As a result of the impairment test by the method of discounted cash flows calculated as at 31 December 2011, the loss from the impairment of property, plant and equipment of OMZ-Specstal amounted to US$ 50 966.

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

- in respect of an increase in WACC by 1 percentage point, the impairment charge against of property, plant and equipment would amount to US$ 70 610; in respect of a decrease in WACC by 1 percentage point the impairment charge of property, plant and equipment would amount US$ 34 664; a WACC of 21% would result in no impairment.
- in respect of an increase in revenue growth for the forecast periods by 1 percentage point with no corresponding change in cost of sales, the impairment charge against property, plant and equipment would amount to US$ 33 914; in respect of a decrease in revenue for the forecast periods by 1 percentage point with no corresponding change in cost of sales, the loss from the impairment of property, plant and equipment would amount to US$ 73 275.
- in respect of an increase in EBITDA as a percentage of revenue rate by 1 percentage point, the impairment charge against property, plant and equipment would amount to US$ 31 946; in respect of a decrease in EBITDA as a percentage of Revenue by 1 percentage point, the impairment charge against property, plant and equipment would amount to US$ 74 508.

(in thousands of US dollars unless otherwise stated)

14. Intangible Assets

The carrying value of intangible assets as at 31 December 2011 and 2010 was as follows:

	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**

Comparative information for 2010

	Goodwill	Trademark	Other intangible assets	Total
Balance as at 1 January 2010				
Cost	-	25 276	39 888	65 164
Accumulated amortization	-	(3 730)	(13 007)	(16 737)
Net book value as at 1 January 2010	**-**	**21 546**	**26 881**	**48 427**
Additions	-	-	2 834	2 834
Acquisition of subsidiary (see Note 32)	936	-	27	963
Disposals	-	-	(65)	(65)
Disposal of subsidiaries	-	(6 809)	(5 069)	(11 878)
Amortisation	-	(749)	(3 995)	(4 744)
Impairment	(936)	-	-	(936)
Exchange differences	-	(1 165)	(925)	(2 090)
Net book value as at 31 December 2010	**-**	**12 823**	**19 688**	**32 511**
Balance as at 31 December 2010				
Cost	-	16 413	32 825	49 238
Accumulated amortisation	-	(3 590)	(13 137)	(16 727)
Net book value as at 31 December 2010		**12 823**	**19 688**	**32 511**

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.

In 2010, certain trade marks were disposed of in the sale of Pilsen Steel s.r.o. (Note 32).

During 2010 year the Group obtained control over LLC Izhorskiye svarochnyie materially (Note 32) which resulted in a goodwill of US$ 936 which was fully impaired as at the balance sheet date as management believes that company will not generate any cash to support the amount of goodwill.

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

(in thousands of US dollars unless otherwise stated)

15. Other Non-Current Financial Assets

	31 December 2011	31 December 2010
Long-term loans issued	-	59 894
Available-for-sale investments stated at cost	33 816	34 785
Non-current accounts receivable	4 459	4 815
Restricted cash	-	6 715
Total other non-current financial assets	**38 275**	**106 209**

Available-for-sale investments stated at cost

Entity	Country of Incorporation	31 December 2011	% of share capital	31 December 2010	% of share capital
CJSC “Atomstroyexport”	Russian Federation	29 516	0,24	31 181	3,44
CJSC “Sezam”	Russian Federation	8	22	9	22
UJV Rez a.s.	Europe	2 299	17	2 391	17
Other	Russian Federation	1 993	-	1 204	-
		4 300		**3 604**	

Available for sale investments stated at cost as at 31 December 2011 comprise of unquoted equity securities in the Nuclear Power Construction/Services. 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.

In 2008 the Group acquired 4 536 shares in CJSC “Atomstroyexport”, which represented an 11% 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.

As there are indicators of impairment as a consequence of the decline in equity markets after the acquisition of these investments and a significant dilution of the Group’s stake in one of the investees, management has requested financial information from the entities in which the Group holds minority stakes to enable management to assess whether the Group's investments could be impaired or not. Management has not been able to obtain sufficient financial information prior to the date of the issuance of these consolidated financial statements directly from one investee or from other public sources and, consequently, was unable to determine whether the Group’s investments in CJSC “Atomstroyexport” was impaired or not as at 31 December 2011 and 31 December 2010.

16. Other Non-Current Assets

	31 December 2011	31 December 2010
Advances issued	92	17 113
Other non-current assets	1 831	2 017
Total Other Non-Current Assets	**1 923**	**19 130**

17. Trade and Other Accounts Payable

	31 December 2011	31 December 2010
Trade payables	87 619	111 188
Billings in excess of cost and recognized income	94 578	104 026
Derivatives	1 291	210
Other payables and accrued expenses	11 891	7 165
Total financial liabilities	**195 379**	**222 589**
Payables owed to employees	16 076	14 666
Provision for unused vacation	6 196	5 578
VAT payable	50 989	34 337
Advances received	279 982	248 045
Other taxes payable	6 874	7 277
Total trade and other accounts payable	**555 496**	**532 492**

As at 31 December 2011 accounts payable were primarily denominated in RR except for US$ 9 621 denominated in US$, US$ 123 848 denominated in CZK, US$ 83 225 denominated in EUR (31 December 2010: US$ 3 120 denominated in US$, US$ 69 833 denominated in CZK, US$ 101 679 denominated in EUR and US$ 210 denominated in other currencies).

(in thousands of US dollars unless otherwise stated)

18. Borrowings

Short-term loans and borrowings

	31 December 2011	31 December 2010
EUR denominated fixed rate	1 819	1 019
EUR denominated floating rate	11 622	-
CZK denominated fixed rate	7	-
RR denominated fixed rate	73 568	200 997
RR denominated floating rate	55 410	65 425
	142 426	**267 441**
Short-term finance lease liabilities	2	743
Total short-term borrowings	**142 428**	**268 184**

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

	31 December 2011	31 December 2010
EUR denominated fixed rate	4,0 – 5,95%	4,50%
EUR denominated floating rate	2,66- 3,63%	-
CZK denominated fixed rate	7,91%	-
RR denominated fixed rate	5,9 - 13,75%	7,5 - 11,5%
RR denominated floating rate	6,45 - 12%	10,75 - 15%

As at 31 December 2011 the Group's short-term borrowings in the amount of US$ 62 were secured with the property of the Group. The carrying amount of pledged property, plant and equipment is disclosed in Note13.

Long-term borrowings

	31 December 2011	31 December 2010
RR denominated fixed rate	78 466	67 577
RR denominated floating rate	1 452	31 216
EUR denominated fixed rate	4 795	59 731
EUR denominated floating rate	11 087	5 738
Long-term finance lease liabilities	-	1 025
Non-convertible bonds	2 765	28 235
Total long-term borrowings	**98 565**	**193 522**

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

	31 December 2011		31 December 2010	
	Carrying amounts	**Fair values**	**Carrying amounts**	**Fair values**
Non-convertible bonds	2 765	2 765	28 235	28 235
Long-term finance lease liabilities	-	-	1 025	1 025
Long-term borrowings	95 800	95 800	164 262	164 262

Changes of the carrying amount of non-convertible bonds for years 2011 and 2010 are as follows:

Balance at 1 January 2010	**102 392**
Repayment	(73 700)
Amortization of discount	64
Exchange differences	(521)
Balance at 31 December 2010	**28 235**
Repayment	(24 002)
Amortization of discount	(44)
Exchange differences	(1 423)
Balance at 31 December 2011	**2 765**

(in thousands of US dollars unless otherwise stated)

18. Borrowings (Continued)

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

	31 December 2011	31 December 2010
RR denominated fixed rate	7,4 - 14,00%	9,85 - 12,00%
RR denominated floating rate	12,00%	10,00 - 12,00%
EUR denominated fixed rate	5,95 - 10,00%	10,85%
EUR denominated floating rate	2,66 – 8,15 %	2,00 – 8,00 %
Long-term finance lease liabilities	-	26,00%
Non-convertible bonds	13,00%	13,00%

As at 31 December 2011, long-term borrowings totalling US$ 77 898 (31 December 2010: US$ 34 048) are secured with the property, plant and equipment and trade receivables of the Group. The carrying amounts of pledged property, plant and equipment and trade accounts receivable are disclosed in Note 13 and 10 respectively.

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

As at 31 December 2010 long-term loans had the following maturity profile:

	2012	2013 and after	Total
RR denominated fixed rate	-	67 576	67 576
RR denominated floating rate	21 065	10 151	31 216
EUR denominated fixed rate	-	59 731	59 731
EUR denominated floating rate	-	5 738	5 738
	21 065	**143 196**	**164 261**
Long-term finance lease liabilities	-	1 025	1 025
Non-convertible bonds	28 235	-	28 235

During 2010 the Group settled finance lease liabilities for total consideration US$ 87 758.

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 in the financial reporting of the Group for 2010 year ended. 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 USD 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 USD 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.

(in thousands of US dollars unless otherwise stated)

18. Borrowings (Continued)

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 USD 14 403 thousand was recognized in profit and loss and presented in financial income for the year ended 31 December 2011. Offseting this gain was net interest expense and foreign exchange losses related to the structured transaction in the aggregate of USD 14 403 recognised by the Group in profit and loss and presented within finance costs.

19. Other Long-Term Liabilities

	31 December 2011	31 December 2010
Trade payables, long-term	4 415	3 983
Billings in excess of cost and recognized income - non-current portion	2 148	-
Other long-term liabilities	137	1 629
Other long-term liabilities	**6 700**	**5 612**

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 2010	**2 750**	**35 480**	**(2 720)**	**(4 551)**	**27**	**357**	**(23 266)**	**(17 566)**
Currency translation	-	-	-	-	-	(2)	178	134
As at 31 December 2010	**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)**

Share capital

As at 31 December 2011 and 2010 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 2011 and 2010 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 2011 amounts to US$ 8 522 (31 December 2010: US$ 7 048).

In 2011 the Company did not declare and pay any dividends to holders of ordinary shares.

(in thousands of US dollars unless otherwise stated)

21. Construction Contracts

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

	Year ended 31 December 2011	Year ended 31 December 2010
Contract revenue	451 092	293 898
Contract costs	(380 326)	(267 336)
Gross margin	**70 766**	**26 562**

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 2011	Year ended 31 December 2010
Contract costs incurred and recognized profits (less losses) to date	2 011 147	1 460 163
Advances received on construction contracts	152 904	72 687

Advances received on construction contracts were netted off with accrued receivables in accordance with IAS 11 "Construction Contracts".

Retentions due from customers with a face value of US$ 16 414 as at 31 December 2011 (31 December 2010: US$ 16 508) have not been recognised as they cannot be reliably measured due to significant uncertainty in respect of the probability and timing of collection of these amounts receivable.

As at 31 December 2011, the Group has a number of construction contracts concluded with a head contractor in Russia that is responsible for the construction of Nuclear Power Plant in Eastern Europe. These construction contracts include clauses that permit the head contractor to cancel the contracts with the Group under certain circumstances. Subsequent to the reporting date media reports indicated that final customer announced its intention to cancel the construction.

Management has considered all factors pertaining to the situation and recognized revenues based on their assessment of the expected outcomes considering their contractual rights. Management believes that it is unlikely that Group will incur losses on amounts recognised in accounts due from customers for construction work related these construction contracts.

22. Cost of Sales

	Year ended 31 December 2011	Year ended 31 December 2010
Changes in inventories of finished goods and work in progress	(20 104)	(12 937)
Materials and components used	413 039	267 167
Labour costs	126 983	122 849
Services, including sub-contracting costs	153 296	161 259
Gas and fuel	56 857	48 537
Depreciation	37 167	35 480
Amortisation of intangible assets	2 040	2 069
Change in provision for inventory	2 654	(13 272)
Other	23 955	44 256
Total cost of sales	**795 887**	**655 408**

Total personnel costs recognised in profit and loss amounted to US$ 190 548 (2010: US$ 174 023).

	Year ended 31 December 2011	Year ended 31 December 2010
Short-term employee benefits	168 123	155 336
Termination payments	1 332	1 574
Contributions to the Social Funds	21 093	17 113
Total personnel costs	**190 548**	**174 023**

(in thousands of US dollars unless otherwise stated)

23. Selling Expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Transportation	8 385	4 326
Services	5 765	10 063
Labour costs	9 971	10 108
Other	3 575	2 282
Total selling expenses	**27 696**	**26 779**

24. General and Administrative Expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Labour costs	53 594	41 066
Services	15 645	18 367
Taxes	6 792	3 695
Depreciation	1 780	2 106
Amortisation of intangibles	4 044	1 976
Administration overheads	6 903	3 756
Total general and administrative expenses	**88 758**	**70 966**

25. Other Operating Income and Expense

Other Operating Income

	Year ended 31 December 2011	Year ended 31 December 2010
Gain from disposal of property, plant and equipment	2 350	4 268
Income from operating lease	1 617	1 450
Gain from accounts payable write-off	1 961	396
Gain from disposal of other assets	52	215
Impairment reversal	-	2 881
Other income	3 889	36
Total other operating income	**9 869**	**9 246**

Other Operating Expense

	Year ended 31 December 2011	Year ended 31 December 2010
Impairment loss on fixed and intangible assets	(51 326)	(936)
Loss from disposal of intangible assets	(199)	-
Rent	(3 509)	(3 406)
Loss from impairment of other non-current assets	-	(2 747)
Fines and penalties	(553)	(792)
Change in provision for doubtful accounts receivable	(7 440)	(7 571)
Other expenses	(570)	(2 884)
Total other operating expenses	**(63 597)**	**(18 336)**

(in thousands of US dollars unless otherwise stated)

26. Finance Income and Expense

	Year ended 31 December 2011	Year ended 31 December 2010
Interest income on loans issued	4 613	9 723
Interest income under structured transaction (Note 18)	3 573	-
Income from disposal of investments within structured transaction (Note 18)	14 403	-
Net foreign exchange gain	-	2 633
Finance income	**22 589**	**12 356**
Change in provision for loans issued	(26 150)	-
Interest expense on financial liabilities measured at amortised cost	(22 146)	(54 969)
Interest expense under structured transaction (Note 18)	(18 744)	-
Loss from disposal of securities	-	(253)
Net foreign exchange loss	(1 864)	-
Finance expense	**(68 904)**	**(55 222)**
Net finance expense recognised in statement of comprehensive income	**(46 315)**	**(42 866)**

Interest income on impaired financial assets were in amount US$ 1 900 in 2011 (2010: US$ 79).

Finance expense, recognized directly in other comprehensive income

	Year ended 31 December 2011	Year ended 31 December 2010
Effective portion of gains or losses on hedging instruments used in cash flow hedges	(1 916)	3 272
Foreign currency translation differences for foreign operations	(11 578)	(43 308)
Income tax on income and expense recognised directly in other comprehensive income	376	(616)
Finance expense recognised directly in other comprehensive income, net of tax	**(13 118)**	**(40 652)**
Attributable to:		
Shareholders of the Company	(10 181)	(40 418)
Non-controlling interest	(2 937)	(234)
Finance expense recognised directly in other comprehensive income, net of tax	**(13 118)**	**(40 652)**

27. Income Tax

	Year ended 31 December 2011	Year ended 31 December 2010
Income tax expense – current	(10 258)	(6 646)
Deferred tax income – origination and reversal of temporary differences	(7 798)	13 770
Income tax (expense)/benefit	**(18 056)**	**7 124**

(in thousands of US dollars unless otherwise stated)

27. Income Tax (Continued)

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

	Year ended 31 December 2011	Year ended 31 December 2010
Loss before taxation from continuing operations	(67 434)	(59 105)
Theoretical tax charge at statutory rate of 20%	(13 487)	(11 821)
Effect of different tax rates in other countries	5 989	1 070
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	11 000	-
Non-taxable and non-deductible items	5 988	3 627
Income tax (expense)/benefit	**18 056**	**(7 124)**

The statutory income tax rate for companies of the Group registered in Russian Federation for the years 2011 and 2010 was 20%.

The statutory income tax rate for subsidiaries of the Group registered in Czech Republic for the 2011 and 2010 assessment periods was 19%.

	31 December 2010	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 thousands of US dollars unless otherwise stated)

27. Income Tax (Continued)

Comparative information for year 2010:

	31 December 2009	Acquisition of subsidiaries	Disposal of subsidiaries	Differences recognition and reversal	Exchange difference	Deferred tax recognised on other comprehensive income	31 December 2010
Tax effects of deductible temporary differences:							
Property, plant and equipment	3 475	-	(1 438)	(1 211)	(182)	-	644
Intangible assets	-	-	-	201	(1)	-	200
Accounts payable and accruals	4 469	-	-	5 262	(53)	-	9 678
Inventories	12 728	-	-	(4 666)	(81)	-	7 981
Provision for inventory	10 844	-	(1 953)	(5 129)	(368)	-	3 394
Accounts receivable	3 646	-	(34)	6 735	(71)	-	10 276
Provision for impairment of receivables	2 391	20	-	(1 610)	(24)	-	777
Tax loss carried forward	6 603	-	(23)	7 976	(79)	-	14 477
Other	4 051	2	(123)	282	(128)	-	4 084
Total deferred tax assets	**48 207**	**22**	**(3 571)**	**7 840**	**(987)**	**-**	**51 511**
Set off of tax	(28 015)	-	-	-	-	-	(27 468)
Net deferred tax assets	**20 192**						**24 043**
Tax effects of taxable temporary differences:							
Property, plant and equipment	(10 848)	(479)	2 298	(6 443)	450	-	(15 022)
Intangible assets	(2 554)	(5)	2 204	105	250	-	-
Inventories	(7 376)	(13)	-	220	163	-	(7 006)
Accounts receivable	(15 548)	-	-	7 840	165	-	(7 543)
Provision for impairment of receivables	(6 582)	-	-	619	50	-	(5 913)
Provision for repairs	(6 392)	-	5 809	(42)	625	-	-
Accounts payable	(269)	-	22	(108)	18	-	(337)
Other	(5 103)	-	2	4 282	224	(616)	(1 211)
Total deferred tax liabilities	**(54 672)**	**(497)**	**10 335**	**6 473**	**1 945**	**(616)**	**(37 032)**
Set off of tax	28 015	-	-	-	-	-	27 468
Net deferred tax liabilities	**(26 657)**						**(9 564)**

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$ 19 566 (31 December 2010: nil) 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$ 19 566 will expire in 2021-2022.

As at 31 December 2011 the Group has not recognized a deferred tax liability of US$ 24 074 (31 December 2010: US$ 32 431) 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.

(in thousands of US dollars unless otherwise stated)

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 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**

Comparative information for year 2010:

	Provision for loss-making contracts	Provision for warranties	Provision for legal claims	Provision for penalty	Other provisions	Total
As at 1 January 2010	**-**	**12 275**	**1 164**	**3 677**	**600**	**17 716**
(Used)/ charge	23 113	(1 061)	74	12 184	16	34 326
Disposal of subsidiaries	-	(4 700)	(1 050)	-	-	(5 750)
Exchange differences	(82)	(562)	(113)	(69)	(26)	(852)
As at 31 December 2010	**23 031**	**5 952**	**75**	**15 792**	**590**	**45 440**
Less amount included in other long-term liabilities	-	(2 270)	-	-	-	(2 270)
As at 31 December 2010	**23 031**	**3 682**	**75**	**15 792**	**590**	**43 170**

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. As at 31 December 2011 provision for loss-making contracts amounted to US$ 14 039.

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$ 7 122 (2010: US$ 5 952) has been recognised as at 31 December 2011 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. The balance as at 31 December 2011 is US$ 46 (2010: US$ 75).

Provision for penalty

The amounts shown comprise gross provisions in respect of penalties in connection with the late delivery of projects to customers. The balance as at 31 December 2011 is US$ 12 135 (2010: US$ 15 792).

(in thousands of US dollars unless otherwise stated)

29. Contingencies, Commitments and Operating Risks

Capital commitments

As at 31 December 2011 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for US$ 74 521 (31 December 2010: US$ 115 050).

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.

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.

Guarantees

The Group has guaranteed loans to related party issued by intermediate parent company in amount US$ 41 399.

The Group's borrowings were secured by third party guarantees and by the intermediate parent company in the amount of US$ 5 715 (31 December 2010: US$ 85 753).

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 2011	**Year ended 31 December 2010**
Less than 1 year	(1 474)	(1 515)
From 1-5 years	(5 576)	(5 361)
More than 5 years	(49 786)	(49 106)
Total lease rentals payable	**(56 836)**	**(55 982)**

(in thousands of US dollars unless otherwise stated)

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 2011	Year ended 31 December 2010
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
Loss from continuing operations attributable to the ordinary equity holders of the parent entity	(47 367)	(22 615)
Loss per share from continuing operations	(1,5315)	(0,7312)
Profit from discontinued operations attributable to the ordinary equity holders of the parent entity	-	49 643
Profit per share from discontinued operations	-	1,6051
Profit/(loss) for the year attributable to the Group's equity holders	(47 367)	27 028
Basic gain/(loss) per share	(1,5315)	0,8739

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 2011 % of share capital	31 December 2010 % 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	100
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	59,9
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 materialy1	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 Group's ownership interest disclosed above has been changed as a result of contribution of investment in OMZ Gornoe oborudovanie i tehnologii LLC ("GoiT") to the charter capital of IZ-Kartex LLC (P.G. Korobkova) ("Kartex") (Note 32).

(in thousands of US dollars unless otherwise stated)

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.

Acquisition of subsidiaries in 2010

On 12 April 2010 the Group obtained control of “LLC Izhorskiye svarochnyie materially”, which is engaged in the manufacture of products including wire (electrodes for welding) and pottery (gumboils), by acquiring the remaining 81% that it did not previously own from an entity under common control.

From the date of acquisition to 31 December 2010 “LLC Izhorskiye svarochnyie materially” contributed revenue of US$ 2 582 and incurred loss of US$ 128.

If the acquisition had occurred on 1 January 2010, management estimates that consolidated revenue for would have been US$ 746 720, and consolidated loss for the year would have been US$ (2 262). In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2010.

The following summarizes the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

	Recognised fair value on acquisition
Cash and cash equivalents	3
Trade and other receivables	548
Advances to suppliers	48
Income tax receivable	7
Inventories	772
Property, plant and equipment	3 743
Intangible assets	27
Deferred tax assets	22
Trade and other payables	(786)
Short-term borrowings	(759)
Deferred tax liabilities	(497)
Net identifiable assets, liabilities and contingent liabilities	**3 128**
Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilities of the acquire	232
Fair value of the subsidiary net assets acquired	**3 360**
Goodwill	936
Total acquisition	**4 296**
Less: acquisition cost of the acquired entity prior to obtaining control	(850)
Less: cash and cash equivalents held by the acquired subsidiary	(3)
Foreign exchange	193
Outflow cash and cash equivalents at acquisition	**3 636**

Disposal of subsidiaries in 2010

Pilsen Steel s.r.o.

On 27 July 2010 the Group disposed of its investment in Pilsen Steel s.r.o.

The Group loss for the year includes the operating loss from Pilsen Steel s.r.o through to the date of disposal of US$ 13 303 and the gain on disposal of US$ 53 172.

(in thousands of US dollars unless otherwise stated)

32. Business Combinations and Disposals (Continued)

Disposals influenced the Group's assets and liabilities on the date of disposal as follows:

	Book value at the date of disposal
Cash and cash equivalents	950
Trade and other receivables	29 120
Advances to suppliers	1 986
Income tax receivable	1 157
Inventories	57 325
Property, plant and equipment	77 502
Intangible assets	11 878
Trade and other payables	(53 577)
Short-term borrowings	(13 541)
Deferred tax liabilities	(8 281)
Other long-term liabilities	(383)
Net identifiable assets and liabilities	**104 136**
Gain on disposal of disposal group constituting the discontinued operation	53 172
Currency translation reserve	(27 085)
Cost to sell of subsidiary	1 878
Foreign exchange	370
Total compensation for the assets disposed of	**132 471**
Less: compensation received in the form of the promissory note	(14 097)
Less: cash and cash equivalents held by the subsidiary disposed of	(950)
Proceeds from disposal	**117 424**

The Group recognized a gain of US$ 53 172 on the disposal of the subsidiary in the consolidated statement of comprehensive income as a gain on disposal of discontinued operation.

The table below presents the analysis of results in respect of discontinued operations:

	Year ended 31 December 2010
Revenue	75 429
Other income/expenses	(88 024)
Loss before income tax	**(12 595)**
Income tax expense	(708)
Loss from discontinued operation	**(13 303)**

Pilsen Estate s.r.o.

On 27th July 2010 the Group disposed of its investment in Pilsen Estate s.r.o.

The Group loss for the year includes the operating profit from Pilsen Estate s.r.o through to the date of disposal of US$ 1 299 and the gain on disposal of US$ 8 475.

The disposal of the subsidiary had the following effect on the Group's assets and liabilities at the date of disposal:

	Book value at the date of disposal
Cash and cash equivalents	137
Trade and other receivables	3 571
Income tax receivable	189
Other current financial assets	1 459
Property, plant and equipment	9 168
Deferred tax assets	1 439
Trade and other payables	(93)
Net identifiable assets and liabilities	**15 870**
Gain on disposal of disposal group constituting the discontinued operation	8 475
Currency translation reserve	(440)
Foreign exchange	28
Total compensation for the assets disposed of	**23 933**
Less: cash and cash equivalents held by the subsidiary disposed of	(137)
Proceeds from disposal	**23 796**

The Group recognized a gain of US$ 8 475 on the disposal of the subsidiary in the consolidated statement of comprehensive income as a gain on disposal of discontinued operation.

(in thousands of US dollars unless otherwise stated)

32. Business Combinations and Disposals (Continued)

The table below presents the analysis of results and information in respect of discontinued operations:

	Year ended 31 December 2011	Year ended 31 December 2010
Other income/expenses	-	1 025
Profit before income tax	-	**1 025**
Income tax	-	274
Profit from discontinued operation	-	**1 299**

Disposals of non-controlling interests in 2010

OJSC Izhorskiye Zavody

During September 2010, the Group's ownership interest in OJSC Izhorskiye Zavody was diluted from 80,1 % to 59,9% as a consequence of the subsidiary issuing 560,000 additional ordinary shares directly to the Group's immediate parent company. These shares were issued in exchange for cash of US$ 59 015. The carrying amount of OJSC Izhorskiye Zavody's net assets, including the cash received from the share issue, on the date of the transaction was US$ 133 829. As a result of this transaction, non-controlling interests increased by US$ 38 677 and the Group recognised the surplus between the cash received and the change in non-controlling interests of US$ 20 195 directly in equity as an increase in retained earnings.

OMZ SpecStal LLC

During August 2010, the Group's ownership interest in OMZ SpecStal LLC was diluted from 100 % to 50,4% as a consequence of the subsidiary allocating a charter capital increase directly to the Group's intermediate parent company in exchange for cash. This allocation of capital was in exchange for cash consideration of US$ 93 592. The carrying amount of OMZ SpecStal LLC's, including the cash received from the capital increase, on the date of the transaction was US$ 191 160. As a result of the transaction, non-controlling interests increased by US$ 94 888 and the Group recognised the deficit between the cash received and the change in non-controlling interests of US$ 2 687 directly equity as a decrease in 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.

In addition, the subsidiary company SKODA JS s.r.o. uses derivatives as hedging instruments in their control of foreign currency risk which include currency forwards and swaps as well as structured currency products. The maturity of these derivative contracts is intended to be consistent with the expected future foreign currency cash flows.

(in thousands of US dollars unless otherwise stated)

33. Financial Risk ad Capital Management (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

Subsequent to the reporting date, the Russian Ruble and the Czech Koruna have increased in value by approximately 9% and 3% 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 2011
	EUR weakening by 25%	EUR strengthening by 25%	US$ weakening by 25%	US$ strengthening by 25%
Income statement				
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	-	-
Other comprehensive income				
Derivative financial assets and liabilities	385	(385)	-	-

Comparative information for year 2010:

				31 December 2010
	EUR weakening by 25%	EUR strengthening by 25%	US$ weakening by 25%	US$ strengthening by 25%
Income statement				
Revaluation of cash	39 264	(39 264)	2	(2)
Revaluation of trade receivables	30 287	(30 287)	2 358	(2 358)
Revaluation of payables	(20 676)	20 676	(4 578)	4 578
Revaluation of loans issued	14 974	(14 974)	-	-
Short-term borrowings	(255)	255	-	-
Long-term borrowings	(16 367)	16 367	-	-
Derivative financial assets	232	(232)	-	-
Other comprehensive income				
Derivative financial assets and liabilities	(664)	664	-	-

(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 as 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 in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

An increase of 1 percent in variable interest rates at the reporting date would have decreased equity and profit or loss by USD 796 thousand (2010: US$ 1 024). A decrease of 1 percent in interest rates at the reporting date would have increased equity and profit or loss by USD 796 thousand (2010: US$ 1 024).

This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

(in thousands of US dollars unless otherwise stated)

33. Financial Risk ad Capital Management (Continued)

(a) Market risk (Continued)

(iii) Derivatives

Nominal and fair value of derivatives:

	Nominal value 31 December 2011		Nominal value 31 December 2010		Fair value 31 December 2011		Fair value 31 December 2010	
	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	38 632	11 917	-	(211)	762	(53)
Trading instruments								
Currency derivatives	6 481	43 864	25 144	13 394	22	(1 102)	164	(191)

Volume of hedged cash flows:

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)**

Comparative information for year 2010:

Volume of hedged cash flows	**Within 1 year**		**1 – 5 years**	
Balance as at 31 December 2010	**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	42 561	746	7 988	(37)
Total	**42 561**	**746**	**7 988**	**(37)**

(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 2011 trade receivables and accounts due from customers for contract work related to equipment for nuclear power plants segment amounted to US$ 130 016 (31 December 2010: US$ 101 843). 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 balance sheet.

(in thousands of US dollars unless otherwise stated)

33. Financial Risk ad Capital Management (Continued)

(b) Credit risk (Continued)

The table summarizes the maximum exposure to credit risk:

Carrying amount as at 31 December 2011	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
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	1400	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
Long-term loans issued	-	-	-	-
Available for-sale investments	33 816	-	130	33 946
Restricted cash	14 580	-	-	14 580
	288 817	**58 087**	**56 753**	**403 657**

Comparative information for year 2010:

Carrying amount as at 31 December 2010	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
Cash and cash equivalents	176 057	-	-	176 057
Trade receivables	82 729	8 133	6 547	97 409
Accounts due from customers for contract work	101 843	-	-	101 843
Other receivables	28 302	9	15 141	43 452
Short-term loans issued	110 450	2 812	2 034	115 296
Promissory notes	111	-	7 788	7 899
Positive fair values of financial derivatives	926	-	-	926
Long-term loans issued	59 894	-	250	60 144
Available for-sale investments	63 495	-	-	63 495
Restricted cash	7 321	-	-	7 321
	630 678	**10 954**	**31 760**	**673 392**

In addition to the credit exposure disclosed above for recognised assets, the Group also has a gross credit exposure for guarantees on loans to third and related parties in the total amount of US$ 41 399 (31 December 2010: US$ 48 544).

(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 2011 the Group has unused credit facilities in the amount of US$ 293 296 (31 December 2010: US$ 415 521).

The table below analyses the Group's financial liabilities which will be settled on a gross basis into relevant maturity based on the remaining period at the balance sheet to the together with the borrowings).

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	**67 194**	**51 234**	**41 399**	**512 812**

(in thousands of US dollars unless otherwise stated)

33. Financial Risk ad Capital Management (Continued)

(c) Liquidity risk (Continued)

The maturity analysis of financial liabilities other than derivatives as at 31 December 2010 is as follows:

	Less than 1 year	1-2 years	2-5 years	More than five years	Total
Trade and other payables	222 589	-	3 983	-	226 572
Short-term borrowings	268 184	-	-	-	268 184
Long-term borrowings	-	21 065	144 222	-	165 287
Bonds	-	28 235	-	-	28 235
Bond coupon	13 233	-	-	-	13 233
Guarantees	48 544	-	-	-	48 544
Other interest payments	40 002	29 499	62 980	-	132 481
	592 552	**78 799**	**211 185**	**-**	**882 536**

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)

Contractual maturity obligation for derivatives as at 31 December 2010:

	Total	Less than 3 months	3 - 12 months	1 - 5 years
Derivatives with positive fair value				
Currency derivatives				
Inflow of financial resources	64 783	7 657	57 126	-
Outflow of financial resources	(63 777)	(7 465)	(56 312)	-
Derivatives with negative value				
Currency derivatives				
Inflow of financial resources	25 081	10 625	6 512	7 944
Outflow of financial resources	(25 311)	(10 775)	(6 548)	(7 988)

The contractual maturities of guarantee obligations of US$ 41 399 (2010: US$ 48 544) are between 2020-2022 (31 December 2010: 2013-2022).

(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).

(in thousands of US dollars unless otherwise stated)

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 2011:

	Loans and receivables	Available for sale financial assets	Financial derivatives - hedging	Total
ASSETS				
Cash and cash equivalents (Note 8)				
Cash on hand and balances with the bank	36 727	-	-	36 727
Cash equivalents	1 619	-	-	1 619
Trade and other receivables (Note 9)				
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 11)				
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 14)				
Long-term loans issue	-	-	-	-
Available-for-sale investments	-	33 816	-	33 816
Non-current accounts receivables	4 459	-	-	4 459
Total financial assets	**317 525**	**33 816**	**22**	**351 363**
Non-financial assets	-	-	-	**799 395**
Total assets	**317 525**	**33 816**	**22**	**1 150 758**

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.

(in thousands of US dollars unless otherwise stated)

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

Comparative information for 2010:

	Loans and receivables	Available for sale financial assets	Financial derivatives - hedging	Total
ASSETS				
Cash and cash equivalents (Note 8)				
Cash on hand and balances with the bank	151 153	-	-	151 153
Cash equivalents	24 904	-	-	24 904
Trade and other receivables (Note 9)				
Trade receivables	90 862	-	-	90 862
Accounts due from customers for contract work	101 843	-	-	101 843
Forward foreign exchange contracts – cash flow hedges	-	-	926	926
Other receivables	28 311	-	-	28 311
Other current financial assets (Note 11)				
Short-term loans issued	113 262	-	-	113 262
Available-for-sale investments	28 710	-	-	28 710
Restricted cash	606	-	-	606
Promissory notes	111	-	-	111
Other	510	-	-	510
Other non-current financial assets (Note 14)				
Long-term loans issue	59 894	-	-	59 894
Available-for-sale investments	-	34 785	-	34 785
Non-current accounts receivables	4 815	-	-	4 815
Total financial assets	**604 981**	**34 785**	**926**	**640 692**
Non-financial assets	-	-	-	**820 184**
Total assets	**604 891**	**34 785**	**926**	**1 460 876**

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$ 210 and included in trade and other accounts payable.