

**PJSC EAlliance**

IFRS consolidated interim  
condensed financial statements  
(unaudited)  
for the six months ended 30 June 2010

**Consolidated interim condensed financial statements  
for the six months ended 30 June 2010**

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## Report on Review of consolidated interim condensed financial information

To the Shareholders and the Board of Directors of PJSC EMalliance

### *Introduction*

We have reviewed the accompanying consolidated interim condensed statement of financial position of PJSC EMalliance as at 30 June 2010 and the related consolidated interim condensed statements of comprehensive income, cash flows and consolidated interim condensed changes in equity for the six months then ended and other explanatory notes. Management is responsible for the preparation and fair presentation of this consolidated interim condensed financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

### *Scope of Review*

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

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial information does not present fairly, in all material respects, the financial position of PJSC EMalliance as at 30 June 2010, and its financial performance and its cash flows for the six-month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

  
Audit Engagement Partner  
V. Poguliaev

14 September 2010  
Moscow, Russian Federation



**Consolidated interim condensed financial statement of financial position**  
**at 30 June 2010**  
*(in thousands of Russian Roubles)*

	Notes	30 June 2010 (unaudited)	31 December 2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	1,670,341	1,560,851
Intangible assets		49,395	46,762
Deferred tax assets	24	-	120,966
Available-for-sale investments	8	1,641	1,641
VAT receivable	11	259,777	403,184
Non-current trade accounts receivable	9	214,971	222,239
Prepayments	9	24,548	291,541
		<u>2,220,672</u>	<u>2,647,183</u>
<b>Current assets</b>			
Inventories	10	653,787	773,165
Taxes receivable	11	2,210,825	1,780,790
Trade and other accounts receivable	9	2,276,692	1,811,662
Prepayments	9	1,453,684	2,984,289
Amounts due from customers for contract work	12	9,261,002	5,901,436
Investments held-to-maturity	8	2,507	183
Cash and cash equivalents	13	1,949,372	616,379
		<u>17,807,868</u>	<u>13,867,904</u>
<b>Total assets</b>		<u><b>20,028,540</b></u>	<u><b>16,515,087</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	17	1,601,000	1,601,000
Retained earnings		(3,249,068)	(3,484,760)
		<u>(1,648,068)</u>	<u>(1,883,760)</u>
Non-controlling interest		587,956	636,176
<b>Total equity</b>		<u><b>(1,060,112)</b></u>	<u><b>(1,247,584)</b></u>
<b>Non-current liabilities</b>			
Long-term borrowings	14	4,816,342	2,920,829
Long-term advances received	15	1,678,544	2,276,988
Deferred tax liabilities	24	74,601	-
Employees benefit liability	16	143,669	139,292
		<u>6,713,156</u>	<u>5,337,110</u>
<b>Current liabilities</b>			
Trade and other accounts payable	15	1,130,182	1,524,766
Short-term advances received	15	10,500,392	9,728,638
Taxes payable	11	147,065	59,471
Short-term borrowings	14	2,429,364	975,967
Accrued liabilities	15	168,493	136,719
		<u>14,375,496</u>	<u>12,425,562</u>
<b>Total liabilities</b>		<u><b>21,088,652</b></u>	<u><b>17,762,671</b></u>
<b>Total equity and liabilities</b>		<u><b>20,028,540</b></u>	<u><b>16,515,087</b></u>

Levan Dzigua  
General Director  
14 September 2010



Mikhail Belov  
Chief Financial Officer

*Notes on pages 8 to 31 form an integral part of these consolidated financial statements.*

Consolidated interim condensed financial statement of comprehensive income  
for six months ended 30 June 2010

(in thousands of Russian Roubles)

	Notes	Six months ended 30 June 2010 (unaudited)	Six months ended 30 June 2009 (unaudited)
Revenue	18	7,436,703	4,684,870
Cost of sales	19	(5,884,359)	(3,539,191)
Increase in provision on losses under construction contracts		(39,266)	(86,659)
<b>Gross profit</b>		<b>1,513,078</b>	<b>1,059,020</b>
Selling and distribution expenses	20	(79,207)	(81,670)
General and administrative expenses	21	(520,545)	(661,477)
Other operating expenses, net	22	(36,700)	(59,337)
Foreign exchange gain, net		7,760	26,187
Finance cost, net	23	(428,510)	(108,773)
<b>Profit before taxation</b>		<b>455,876</b>	<b>173,950</b>
Income tax expense	24	(253,146)	(128,576)
<b>Net profit for the period</b>		<b>202,730</b>	<b>45,375</b>
<b>Total comprehensive income</b>		<b>202,730</b>	<b>45,375</b>
<b>Attributable to:</b>			
Equity holders of the parent		250,950	11,660
Non-controlling interests		(48,220)	33,714
		<b>202,730</b>	<b>45,375</b>
Basic earnings per share (in RUR)	17	0.157	0.007

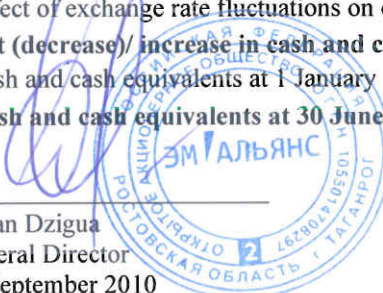
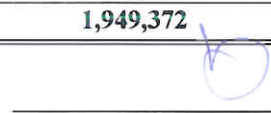
  
  
 Levan Dzigua  
 General Director  
 14 September 2010

  
 Mikhail Belov  
 Chief Financial Officer

Notes on pages 8 to 31 form an integral part of these consolidated financial statements.



**Consolidated interim condensed financial statement of cash flows**  
**for six months ended 30 June 2010**  
*(in thousands of Russian Roubles)*

	Six months ended 30 June 2010 (unaudited)	Six months ended 30 June 2009 (unaudited)
<b>OPERATING ACTIVITIES</b>		
Net profit for the period	202,730	45,375
Adjustments for:		
Depreciation and amortisation	133,621	136,805
Gain/(loss) on obsolescence of inventory	28,569	(38,595)
Increase in provision on losses under construction	39,266	86,659
Changes in allowance for accounts receivable	(20,635)	(32,096)
Foreign exchange difference, net	(7,760)	(26,187)
Accounts payable written-off	(9)	(13)
Loss on disposal of property, plant and equipment	12,051	16,670
Interest expense	428,160	193,696
Interest income	(12,435)	(115,992)
(Gain) / loss from initial recognition of financial instruments at fair value	(16,198)	59,517
Gain on investments held to maturity	-	(1,731)
Income tax expense	253,146	128,576
<b>Operating profit before changes in working capital</b>	<b>1,040,506</b>	<b>452,683</b>
Decrease in inventories	90,808	136,290
Increase in trade and other receivables	(2,358,105)	(2,384,433)
Decrease/(increase) in trade and other payables	72,965	(1,014,600)
<b>Cash flows used in operations before income taxes and interest paid</b>	<b>(1,153,826)</b>	<b>(2,810,060)</b>
Income tax paid	(57,081)	(42,972)
Interest paid	(420,171)	(21,601)
<b>Net cash flows used in operating activities</b>	<b>(1,631,078)</b>	<b>(2,874,633)</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(214,515)	(61,770)
Proceeds from disposal of property, plant and equipment	5,438	107
Proceeds from disposal of investments in promissory notes	-	58,800
Purchase of other available-for-sale investments	-	(42,593)
Purchase of intangible assets	(21,304)	(45,508)
Net change in loans given	(2,090)	(6,249)
Interest received	15,376	28,785
<b>Net cash flows used in investing activities</b>	<b>(217,095)</b>	<b>(68,428)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of finance lease	(18,798)	(10,097)
Proceeds from borrowings	5,858,292	720,435
Repayment of borrowings	(2,600,700)	(708,518)
Dividends paid	(20,364)	(5,357)
<b>Net cash flows generated from /(used in) financing activities</b>	<b>3,218,429</b>	<b>(3,538)</b>
Effect of exchange rate fluctuations on cash and cash equivalents	(37,264)	87,627
<b>Net (decrease)/ increase in cash and cash equivalents</b>	<b>1,332,993</b>	<b>(2,858,972)</b>
Cash and cash equivalents at 1 January	616,379	3,739,946
<b>Cash and cash equivalents at 30 June</b>	<b>1,949,372</b>	<b>880,974</b>
Levan Dzigua General Director 14 September 2010		
	Mikhail Belov Chief Financial Officer	

*Notes on pages 8 to 31 form an integral part of these consolidated financial statements.*

Consolidated interim condensed financial statement of changes in equity

for six months ended 30 June 2010

(in thousands of Russian Roubles)

	Attributable to equity holders of the parent		Non-controlling interest	Total equity
	Share capital	Retained earnings		
<b>Balance at 31 December 2008</b>	<b>1,601,000</b>	<b>(3,614,381)</b>	<b>617,769</b>	<b>(1,395,612)</b>
<b>Comprehensive income</b>				
Profit for the year	-	316,271	38,518	354,790
<b>Total comprehensive income</b>	-	316,271	38,518	354,790
<b>Transactions with owners</b>				
Acquisition of non-controlling interests	-	(28,346)	(11,862)	(40,208)
Dividends on preference shares of subsidiaries for 2008	-	(29,533)	(8,249)	(37,782)
Dividends on ordinary shares of the parent for 2008	-	(128,771)	-	(128,771)
<b>Total transactions with owners</b>	-	(186,650)	(20,111)	(206,761)
<b>Balance at 31 December 2009</b>	<b>1,601,000</b>	<b>(3,484,760)</b>	<b>636,176</b>	<b>(1,247,584)</b>
<b>Comprehensive income/(loss)</b>				
Profit/(loss) for the year	-	250,950	(48,220)	202,730
<b>Total comprehensive income/(loss)</b>	-	250,950	(48,220)	202,730
<b>Transactions with owners</b>				
Dividends on preference shares of subsidiaries for 2009	-	(15,258)	-	(15,258)
<b>Total transactions with owners</b>	-	(15,258)	-	(15,258)
<b>Balance at 30 June 2010 (unaudited)</b>	<b>1,601,000</b>	<b>(3,249,068)</b>	<b>587,956</b>	<b>(1,060,112)</b>

Levan Dziguva  
General Director

14 September 2010

Mikhail Belov  
Chief Financial Officer

Notes on pages 8 to 31 form an integral part of these consolidated financial statements.

### 1. Corporate information

The interim consolidated financial statements of the PJSC EMAlliance comprise financial information on PJSC “EMAlliance” (the “Company”) and its subsidiaries (together - the “Group” or “EMAlliance”). Principal subsidiaries are disclosed in Note 27. The Company is an open joint stock (public) company as defined in the Civil Code of the Russian Federation.

PJSC EMAlliance was founded on 24 February 2005. The Company is located at 220, Lenin str., Taganrog city, Rostov Region, Russian Federation.

EMAlliance is one of Russia’s largest power machine-building groups. The Group has a global experience and competence in engineering and supply of power generating equipment.

EMAlliance provides a wide range of engineering and production:

- coal and gas&oil boilers of steam capacity 50 to 3950 ton per hour with steam conditions achieving ultrasupercritical values;
- heat recovery steam generators of steam capacity up to 1000 ton per hour for combined cycle power plants;
- circulating fluidized bed boilers;
- boiler island on turn-key basis.

EMAlliance covers over 80% of the Russian boilers market. The Group’s products are sold in the Russian Federation and abroad.

Engineering subsidiaries of EMAlliance are located in the following cities of Russia: Taganrog, Podolsk, Barnaul and Ivanovo.

EMAlliance has gained experience in power projects under EPC (Engineering, Procurement and Construction) contracts. New approach to marketing in Russia exposes a number of the Group competences to be as follows: the company has consolidated the manufacturing facilities of the leading boiler designers and has integrated high-qualified managers with long-term expertise in such contracts.

EMAlliance is a reliable supplier of advanced technological solutions applied successfully for engineering and supply of boiler islands of thermal power plants. EMAlliance sets itself the objective to become Russia’s key power engineering company and one of the world’s market leaders.

The parent company of the Company is Auburn Investments Ltd. incorporated in Cyprus. Auburn Investments Ltd owns 100% of ordinary shares of the Company as at 30 June 2010 (31 December 2009: 100%). Group is ultimately controlled by Mr. Evgeny Tugolukov.



## **2. Basis of preparation of the financial statements**

The consolidated interim condensed financial information is prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). This consolidated interim condensed financial information should be read together with the consolidated financial statements for the year ended 31 December 2009 prepared in accordance with International Financial Reporting Standards ("IFRS").

## **3. Summary of significant accounting policies**

The accounting policies and judgements applied by the Group are consistent with those disclosed in the audited consolidated financial statement for the year ended 31 December 2009, except for the accounting of the acquisition of a minority interest due to adopt of IAS 27 "Consolidated and Separate Financial Statements" (2008) effective 1 January 2010. Any difference between the amount by which the non-controlling interest is adjusted and the consideration paid or received is recognized directly in equity and attributed to the owners of the parent, and there is no consequential adjustment to the carrying amount of goodwill and no gain or loss is recognized in the income statement.

## **4. Economic environment in the Russian Federation**

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and changes, which can occur frequently. The future economic direction of 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.

## **5. Segment information**

The Group manufactures energy generating equipment, buys energy generating equipment from subcontractors and sells both types of energy equipment to final customers or intermediaries under the same contract within the framework of turn-key projects.

The Group identifies the following operating segments:

- EPC (Engineering, Procurement and Construction) contracts;
- Engineering and energy equipment supply;
- Production of the energy equipment. In the event if the equipment produced by the one of the Group's entity is involved in forming of the other segments, its value recognised as an inter-segment turnover.

## Condensed notes to the consolidated financial statements (continued)

The Group's unaudited operating segment information for the six months ended 30 June 2010 is as follows:

'000 RUR	EPC projects	Engineering and energy equipment supply	Production of the energy equipment	Adjustments and eliminations	Total
<b>Revenue</b>					
External customer	607,613	4,842,237	1,986,853	-	7,436,703
Inter – segment	-	1,850,783	-	(1,850,783)	-
Total revenue	<b>607,613</b>	<b>6,693,021</b>	<b>1,986,853</b>	<b>(1,850,783)</b>	<b>7,436,703</b>
<b>Results</b>					
Segment profit before tax	45,311	569,492	(158,927)	-	455,876

The Group's unaudited operating segment information for the six months ended 30 June 2009 is as follows:

'000 RUR	EPC projects	Engineering and energy equipment supply	Production of the energy equipment	Adjustments and eliminations	Total
<b>Revenue</b>					
External customer	621,909	1,842,195	2,220,765	-	4,684,870
Inter – segment	-	1,235,704	-	(1,235,704)	-
Total revenue	<b>621,909</b>	<b>3,077,899</b>	<b>2,220,765</b>	<b>(1,235,704)</b>	<b>4,684,870</b>
<b>Result</b>					
Segment profit before tax	3,767	80,916	89,267	-	173,950

Segment assets of the Group at 30 June 2010 and at 31 December 2009 is as follows:

'000 RUR	EPC projects	Engineering and energy equipment supply	Production of the energy equipment	Adjustments and eliminations	Total
At 30 June 2010 (unaudited)	3,993,292	7,355,852	6,413,581	2,265,815	20,028,540
31 December 2009	3,394,262	6,773,847	5,017,749	1,329,229	16,515,087

### 6. Balances and transactions with related parties

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with the related parties.

## Condensed notes to the consolidated financial statements (continued)

Related parties with whom the Company entered into significant transactions or had significant balances outstanding at 30 June 2010 and 31 December 2009 are detailed below.

### *Balances with related parties:*

<b>'000 RUR</b>	<b>30 June 2010 (unaudited)</b>	<b>31 December 2009 (unaudited)</b>
<i>Parent company</i>		
Trade and other receivables	12,558	12,480
Trade and other accounts payable	22,376	20,524
Interest-bearing loans and borrowings	317,189	317,189

Finance costs from the parent company for six months ended 30 June 2010 is amounted to RUR 36,177k consist of interest expenses on loans received (2009: nil).

### *Compensation to key management personnel*

The key management personnel comprise members of the Management Board and Board of Directors of the Group, totalling 30 persons as at 30 June 2010 (2009: 31). Total compensation to the key management personnel included in administrative expenses in the income statement amounted to RUR 11,502k for six months ended 30 June 2010 (2009: RUR 13,923k). Compensation to the key management personnel consists of the following:

<b>'000 RUR</b>	<b>Six months ended 30 June 2010 (unaudited)</b>	<b>Six months ended 30 June 2009 (unaudited)</b>
Salaries	9,024	10,764
Termination benefits	1,441	1,475
Other benefits	1,037	1,684
	11,502	13,923

## 7. Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

'000 RUR	Buildings and constructio ns	Plant and equipment	Fixtures and fittings	Construction in progress	Total
<b>Cost/Deemed cost</b>					
At 1 January 2009	1,062,026	2,028,186	119,027	51,396	3,260,635
Additions	-	-	-	235,451	235,451
Disposals	(35,947)	(105,894)	(2,079)	(3,872)	(147,792)
Transfers	16,147	100,632	23,770	(140,549)	-
At 31 December 2009	1,042,226	2,022,924	140,718	142,426	3,348,294
Additions	-	-	-	237,074	237,074
Disposals	(3,273)	(25,816)	(258)	-	(29,347)
Transfers	-	7,972	103,687	(111,659)	-
At 30 June 2010 (unaudited)	1,038,953	2,005,080	244,147	267,841	3,556,020
<b>Depreciation and impairment losses</b>					
At 1 January 2009	(630,337)	(972,722)	(34,554)	-	(1,637,613)
Depreciation charge	(48,291)	(177,727)	(10,878)	-	(236,895)
Disposals	20,128	66,138	800	-	87,066
At 31 December 2009	(658,500)	(1,084,311)	(44,632)	-	(1,787,443)
Depreciation charge	(16,236)	(85,783)	(8,282)	-	(110,301)
Disposals	1,234	10,635	196	-	12,064
At 30 June 2010 (unaudited)	(673,501)	(1,159,460)	(52,718)	-	(1,885,679)
<b>Net book value</b>					
At 31 December 2008	431,689	1,055,464	84,473	51,396	1,623,022
At 31 December 2009	383,727	938,613	96,086	142,426	1,560,851
At 30 June 2010 (unaudited)	365,452	845,620	191,428	267,841	1,670,341

As at 30 June 2010 the cost of fully depreciated property, plant and equipment was RUR 733,780k (2009: RUR 858,639k).

The following assets have been pledged to secure Group's borrowings, guarantees and bails (Note 14, 15):

	30 June 2010 (unaudited) '000 RUR	31 December 2009 '000 RUR
Pledges to secure bank loans	875,252	876,987
Pledges to secure guarantees	-	1,148
	875,252	878,135

**8. Investments**

	<b>30 June 2010 (unaudited) '000 RUR</b>	<b>31 December 2009 '000 RUR</b>
<i>Non-current</i>		
Available-for-sale investments	1,641	1,641
<i>Current</i>		
Loans issued – 3 <sup>rd</sup> parties	2,507	183
	<u>4,147</u>	<u>1,824</u>

Loans issued bear the interest rates from 5% to 12% per annum.

**9. Trade and other receivables, prepayments**

	<b>30 June 2010 (unaudited) '000 RUR</b>	<b>31 December 2009 '000 RUR</b>
<b>Non-current accounts receivable and prepayments</b>		
Prepayments	24,548	291,541
Non-current trade accounts receivables - 3 <sup>rd</sup> parties	268,793	274,420
Allowance for accounts receivable	(53,822)	(52,181)
	<u>239,519</u>	<u>513,780</u>
<b>Current accounts receivable</b>		
Trade accounts receivable – 3 <sup>rd</sup> parties	2,113,877	1,593,407
Other receivables – 3 <sup>rd</sup> parties	378,578	437,902
Other receivables - related parties	12,558	12,480
Prepayments – 3 <sup>rd</sup> parties	1,484,434	3,033,510
	<u>3,989,447</u>	<u>5,077,299</u>
Allowance for accounts receivable	(228,321)	(232,127)
Allowance for prepayments	(30,751)	(49,220)
	<u>3,730,375</u>	<u>4,795,951</u>
	<u><u>3,969,894</u></u>	<u><u>5,309,731</u></u>

The fair value of short and long term trade and other receivables approximates to their carrying amount.



**10. Inventories**

Inventories consist of the following:

	<b>30 June 2010 (unaudited) '000 RUR</b>	<b>31 December 2009 '000 RUR</b>
Materials	734,847	831,123
Work in progress	38,785	21,429
Finished goods	130,362	139,089
	903,993	991,640
Provision for obsolescence	(250,206)	(218,476)
	<u>653,787</u>	<u>773,165</u>

Bank borrowings (Note 14, 15) are secured on inventories for the value determined in accordance with national accounting standards as follows:

	<b>30 June 2010 (unaudited) '000 RUR</b>	<b>31 December 2009 '000 RUR</b>
Pledges to secure bank loans	1,472,618	1,485,963
Pledges to secure guarantees	-	209,277
	<u>1,472,618</u>	<u>1,695,240</u>

In accordance with IFRS 1,395,018k (2009: RUR 1,595,211k) of the above mentioned inventories cost are already included in cost of sales and retained earnings of the prior years.

**11. Taxes receivable and payable**

	<b>30 June 2010 (unaudited) '000 RUR</b>	<b>31 December 2009 '000 RUR</b>
<b><i>Taxes receivable - current</i></b>		
Input VAT	178,926	134,547
Allowance for input VAT	(6,921)	(8,966)
VAT receivable*	1,948,138	1,567,370
Corporate income tax receivable	83,733	79,645
Other taxes receivable	6,949	8,194
	<u>2,210,825</u>	<u>1,780,790</u>
<b><i>Taxes receivable - non-current</i></b>		
VAT receivable*	259,777	403,184
	<u>259,777</u>	<u>403,184</u>
<b><i>Taxes payable</i></b>		
VAT payable on sales	72,650	12,338
Corporate income tax	7,196	1,749
Employees income tax	21,287	12,536
Property tax	4,451	4,074
Social taxes payable	37,507	28,279
Other taxes payable	3,974	495
	<u>147,065</u>	<u>59,471</u>

\*VAT receivable represents the VAT paid to tax authorities which relates to advances received from customers

**12. Construction contracts**

*(a) Contracts in progress at the balance sheet date*

	<b>30 June 2010 (unaudited) '000 RUR</b>	<b>31 December 2009 '000 RUR</b>
Contract costs incurred to date	17,970,767	12,995,040
Recognised profits less recognised losses to date	1,821,386	656,286
	19,792,153	13,651,325
Less progress billings to date	(10,531,150)	(7,749,889)
	<u>9,261,002</u>	<u>5,901,436</u>

*(b) Recognized and included in the financial statements as amounts due:*

	<b>30 June 2010 (unaudited) '000 RUR</b>	<b>31 December 2009 '000 RUR</b>
From customers for contract work	9,261,002	5,901,436

*(c) Advances received and retentions held by customers for contract work:*

	<b>30 June 2010 (unaudited) '000 RUR</b>	<b>31 December 2009 '000 RUR</b>
Advances received from customers for contract work	12,178,936	12,005,626
Retentions held by customers for contract work	214,971	222,239

*(d) Contract revenues and costs for six months ended 30 June*

	<b>Six months ended 30 June 2010 (unaudited) '000 RUR</b>	<b>Six months ended 30 June 2009 (unaudited) '000 RUR</b>
Contract revenue for the period	7,366,475	4,630,807
Contract costs for the period	(5,867,442)	(3,582,600)
Contract gross profit for the period	<u>1,499,033</u>	<u>1,048,207</u>

All contracts, except one large contract of the main Group's subsidiary (PJSC "Krasny Kotelschik") are normally profitable. Total loss on this contract recognised in retained earnings as at 30 June 2010 amounts to RUR 1,375,147k (2009: RUR 1,327,196k).

**13. Cash and cash equivalents**

	<b>30 June 2010 (unaudited) '000 RUR</b>	<b>31 December 2009 '000 RUR</b>
Petty cash	87	105
Current accounts in RUR	1,937,358	558,309
Current accounts in foreign currencies	1,247	47,285
Letter of credit	10,681	10,681
	<u>1,949,372</u>	<u>616,379</u>

RUR 10,681k of current accounts as at 30 June 2010 are restricted. (2009: 51,126k).

**14. Borrowings**

	<b>30 June 2010 (unaudited) '000 RUR</b>	<b>31 December 2009 '000 RUR</b>
<i>Non-current</i>		
Secured bank loans	3,775,250	1,609,690
Bonds	993,357	993,357
Unsecured loan from related parties	-	317,189
Finance lease liability	47,735	593
	<u>4,816,342</u>	<u>2,920,829</u>
<i>Current</i>		
Current portion of secured bank loans	2,064,317	972,286
Unsecured loan from related parties	317,189	-
Current portion of finance lease liability	47,858	3,681
	<u>2,429,364</u>	<u>975,967</u>

The fair value of short term and long term borrowings approximates to their carrying amount.

As at 30 June 2010 loans in amount of RUR 5,839,567k (2009: RUR 2,581,976k) are guaranteed by pledge of property, plant and equipment with a carrying amount of RUR 875,252k (2009: RUR 876,987k) and inventories with cost in accordance with national accounting standards of RUR 1,472,618k (2009: RUR 1,485,963k) (see details in Notes 7, 10).

As at 30 June 2010 all Group's borrowings are denominated in RUR.

Repayment schedule of long-term borrowings is as follows:

	<b>30 June 2010 (unaudited) '000 RUR</b>	<b>31 December 2009 '000 RUR</b>
Due for repayment:		
Between one and two years	2,793,357	2,435,546
Between two and five years	1,975,250	484,690
	<u>4,768,607</u>	<u>2,920,236</u>

## Condensed notes to the consolidated financial statements (continued)

Borrowings details are as follows:

Name	Currency	Final Maturity	30 June 2010	31 December 2009	Effective interest rates	30 June 2010	31 December 2009
			(unaudited)	(unaudited)		(unaudited)	(unaudited)
			'000 RUR	'000 RUR			%
<i>Long-term borrowings payable to:</i>							
Sberbank	RUR	2011	-	900,000	Variable rate	-	11.65%- 13.00%
Sberbank	RUR	2012	1,975,250	484,690	Fixed rate	15.50%	15.50%
Sberbank	RUR	2011	200,000	200,000	Fixed rate	17%	17%
IBSP	RUR	2011	-	25,000	Fixed rate	-	18%
AUBURN INVESTMENTS LIMITED	RUR	2011	-	317,189	Fixed rate	-	18%
Bonds holders	RUR	2011	993,357	993,357	Fixed rate	18%	18%
Bank ZENIT	RUR	2011	1,000,000	-	Fixed rate	11%	-
Sobinbank	RUR	2011	600,000	-	Fixed rate	12%	-
Total			<u>4,768,607</u>	<u>2,920,236</u>			
<i>Short-term borrowings payable to:</i>							
Sberbank	RUR	2011	898,532	-	Variable rate	11.65%- 13.00%	-
AUBURN INVESTMENTS LIMITED	RUR	2010	317,189	-	Fixed rate	18%	-
MDM bank	RUR	2010	-	460,000	Fixed rate	-	19.75%
MDM bank	RUR	2010	-	340,000	Fixed rate	-	13.75%
MDM bank	RUR	2010	-	90,000	Fixed rate	-	21.00%
MDM bank	RUR	2011	493,500	-	Fixed rate	12.00%	-
MDM bank	RUR	2010	90,000	-	Fixed rate	7.85%	-
Globex Bank	RUR	2010	500,000	-	Fixed rate	10.50%	-
Credit Bank of Moscow	RUR	2010	44,786	44,786	Fixed rate	20.50%	20.50%
Bank ZENIT	RUR	2010	37,500	37,500	Fixed rate	18.00%	18.00%
Total			<u>2,381,506</u>	<u>972,286</u>			



Condensed notes to the consolidated financial statements (continued)

*Finance leases*

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	<b>30 June 2010</b>		<b>31 December 2009</b>	
	<b>(unaudited)</b>			
	<b>Minimum payments</b>	<b>Present value of payments</b>	<b>Minimum payments</b>	<b>Present value of payments</b>
	<b>'000 RUR</b>	<b>'000 RUR</b>	<b>'000 RUR</b>	<b>'000 RUR</b>
Within one year	1,594	47,858	3,822	3,681
After one year but not more than five years	114	47,735	1,113	593
Total minimum lease payments	1,708	95,593	4,935	4,274
Less: amounts representing interest	(262)	-	(660)	
Present value of minimum lease payments	1,445	95,593	4,274	4,274

The amounts representing interest are based on effective interest rate of 13%.

**15. Trade and other payables**

	<b>30 June 2010</b>	<b>31 December 2009</b>
	<b>(unaudited)</b>	
	<b>'000 RUR</b>	<b>'000 RUR</b>
<b>Non-current trade and other payables</b>		
Advances received from customers – 3 <sup>rd</sup> parties	1,678,544	2,276,988
	1,678,544	2,276,988
<b>Current trade and other payables</b>		
Trade accounts payable – 3 <sup>rd</sup> parties	1,012,607	1,385,298
Advances received from customers – 3 <sup>rd</sup> parties	10,500,392	9,728,638
Accrued liabilities	130,019	84,891
<i>Payroll payable</i>	58,960	25,770
<i>Unused vacation liability</i>	71,059	59,121
Dividends payable on preference shares	38,474	51,828
Other payables – 3 <sup>rd</sup> parties	95,198	118,944
Other payables-related parties	22,376	20,524
	11,799,067	11,390,123
	<b>13,477,611</b>	<b>13,667,112</b>

The fair value of short and long term trade and other payables approximates their carrying amount.

## Condensed notes to the consolidated financial statements (continued)

Advances received from customers are secured by guarantees as follows:

Date of issue	Holder of pledge	Advances received '000 RUR	Contract num	Contract date	Maturity date	Beneficiary
21.06.2010	MDM bank	745,726	1083	31.05.2010	30.06.2011	Rosneft
03.06.2010	OTKRITIE Commercial Bank	4,363,131	9727-48	15.12.2006	31.12.2010	Mosenergo PJSC
06.11.2009	UCB bank	102,957	5316	25.08.2009	31.03.2012	Fortum
06.11.2009	UCB bank	308,870	5316	25.08.2009	31.03.2011	Fortum
06.11.2009	UCB bank	308,870	5316	25.08.2009	31.03.2012	Fortum
06.11.2009	UCB bank	102,013	5316	25.08.2009	31.03.2011	Fortum
17.03.2010	GPB (OJSC)	248,295	OGK-000235	23.12.2009	31.07.2011	JSC OGK-1
		<b><u>6,179,862</u></b>				

### 16. Employees benefit liabilities

The employees benefit liabilities are relevant only to subsidiary company PJSC Krasny Kotelschik. The Group has obligations on the following types of employees benefits:

- lump-sum payments at retirement;
- quarterly pension payments;
- lump-sum payments linked to certain ages – jubilee benefits;
- lump-sum funeral compensations.

Lump-sum benefits at retirement, pension benefits, and funeral compensations are classified as ‘post-employment benefits’; jubilee benefits are classified as ‘other long-term benefits’, according to the classification of IAS 19.

In accordance with IAS 19 the benefit plans are classified as defined benefit plans with respect to formalized and constructive obligations. The plans are a non-funded.

The following tables summarize the components of net benefit expense recognized in the income statement for six months ended 30 June:

	<b>Six months ended 30 June 2010 (unaudited) '000 RUR</b>	<b>Six months ended 30 June 2009 (unaudited) '000 RUR</b>
Current service cost	1,408	1,611
Interest cost	2,897	5,172
Past service cost	(1,248)	9,544
Net actuarial loss recognized in the period	5,399	(13,667)
	<b><u>8,457</u></b>	<b><u>2,660</u></b>

Condensed notes to the consolidated financial statements (continued)

The following tables summarize the funded status and amounts recognized in the balance sheet for the respective plans:

	<b>30 June 2010 (unaudited) '000 RUR</b>	<b>31 December 2009 '000 RUR</b>
Benefit obligation (PV per actuarial valuation)	(128,947)	(123,323 )
Plan assets	-	-
	(128,947)	(123,323 )
Unrecognized past service cost	(14,722)	(15,969)
Benefit liability – non-current	(143,669)	(139,292)

Changes in the present value of the defined benefit obligation are as follows:

	<b>30 June 2010 (unaudited) '000 RUR</b>	<b>31 December 2009 '000 RUR</b>
As at January 1	123,323	137,696
Interest cost on benefit obligation	2,897	10,284
Current service cost	1,408	3,221
Past service cost	-	4,437
Benefits paid	(4,080)	(7,572)
Actuarial losses on obligation	5,399	(24,743)
As at end of period	128,947	123,323

The principal assumptions used in determining benefit obligations for the Group's plan are shown below:

	<b>Six months ended 30 June 2010 (unaudited)</b>	<b>Six months ended 30 June 2009 (unaudited)</b>
Discount rate	9.50%	9.50%
Wage growth rate	8.00%	8.00%
Inflation rate	7.00%	7.00%

	<b>30 June 2010 (unaudited) '000 RUR</b>	<b>31 December 2009 '000 RUR</b>
Defined benefit obligation	128,947	123,323
Deficit	(128,947)	(123,323)
Experience adjustments on plan liabilities	(3,609)	(15,765)

## 17. Equity

Total number of outstanding shares comprises:

	<b>Number of outstanding shares (thousands)</b>	
	<b>Preference shares</b>	<b>Ordinary shares</b>
At 31 December 2009	-	1,601,000
Issue of shares	-	-
At 30 June 2010	-	1,601,000

The authorised number of ordinary shares is 1,601,000 (2009: 1,601,000) respectively, both with a nominal value of RUR 1 per share. All authorised shares have been issued and fully paid.

### *Dividends*

In June 2010 PJSC Krasny Kotelschik has accrued dividends on its preference shares for the year 2010 in amount of RUR 15,258k. The outstanding balance for dividends payable included in accounts payable (Note 15) relates to the dividends accrued in the years 2008, 2009 and 2010, but not paid yet as at the reporting date.

## 18. Sales revenue

The components of sales revenues for six months ended 30 June were as follows:

	<b>Six months ended 30 June 2010 (unaudited) '000 RUR</b>	<b>Six months ended 30 June 2009 (unaudited) '000 RUR</b>
	Energy generating and other equipment	7,345,171
Associated services	21,304	63,054
Sales of materials and goods	70,228	54,063
	<u>7,436,703</u>	<u>4,684,870</u>
Export sales	460,673	1,367,183
Domestic sales	6,976,030	3,317,687
	<u>7,436,703</u>	<u>4,684,870</u>

## Condensed notes to the consolidated financial statements (continued)

The table below shows the customers who provide individually more than 10% of the Group's sales revenue for six months ended 30 June:

	<b>Six months ended 30 June 2010 (unaudited) '000 RUR</b>	<b>Six months ended 30 June 2009 (unaudited) '000 RUR</b>
OGC-6	3,779,018	1,141,406
Tehnopromeksport	813,534	632,630
Mosenergo	607,613	621,909
Revenue from other customers	2,236,538	2,288,924
	<b>7,436,703</b>	<b>4,684,870</b>

The table below shows the sales revenues for six months ended 30 June by country:

	<b>Six months ended 30 June 2010 (unaudited) '000 RUR</b>	<b>Six months ended 30 June 2009 (unaudited) '000 RUR</b>
<b>Revenues from external customers</b>		
Russia	6,976,030	3,317,687
CIS	416,864	775,353
Southeast Asia	28,418	521,856
EU countries	10,468	39,126
Near East/Africa	4,924	30,848
	<b>7,436,703</b>	<b>4,684,870</b>



**19. Cost of sales**

The components of cost of sales for six months ended 30 June were as follows:

	<b>Six months ended 30 June 2010 (unaudited) '000 RUR</b>	<b>Six months ended 30 June 2009 (unaudited) '000 RUR</b>
Materials	1,000,377	936,087
Subcontract products and works	4,026,337	1,861,228
Production staff costs	511,778	378,084
Energy	154,565	116,759
Utilities	8,125	7,776
Depreciation and amortisation	76,450	76,876
Depreciation	75,100	75,849
Amortisation	1,350	1,027
Repair services	28,335	7,218
Business trips	9,552	6,800
Taxes	21,699	17,855
Professional services	65,520	116,782
Capitalised expenses	(29,661)	(8,624)
Change in work-in-progress (WIP)	(25,843)	(12,595)
Change in finished goods (FG)	8,558	73,541
Inventory adjustments	28,569	(38,595)
Stock count results	(3,161)	(32)
Change in impairment allowance for raw materials	21,747	(22,701)
Change in impairment allowance for WIP	8,255	(14)
Change in impairment allowance for FG	1,728	(15,848)
	5,884,359	3,539,191

## 20. Selling and distribution costs

Selling and distribution costs for six months ended 30 June comprise:

	<b>Six months ended 30 June 2010 (unaudited) '000 RUR</b>	<b>Six months ended 30 June 2009 (unaudited) '000 RUR</b>
Staff expenses	25,857	17,716
Transportation of finished goods	60,895	88,929
Materials	982	1,278
Advertising	1,193	2,234
Depreciation and amortisation	543	1,048
Depreciation	490	977
Amortisation	53	71
Business trips expenses	571	244
Property tax	5	11
Change in allowance for doubtful debts	(20,635)	(32,096)
Professional services	9,795	2,305
	<u>79,207</u>	<u>81,670</u>

## 21. General and administrative expenses

General and administrative expenses for six months ended 30 June comprise:

	<b>Six months ended 30 June 2010 (unaudited) '000 RUR</b>	<b>Six months ended 30 June 2009 (unaudited) '000 RUR</b>
Administration staff expenses	341,924	408,022
Energy	7,565	7,059
Utilities	5,004	1,400
Depreciation and amortisation	52,031	58,433
Depreciation	34,711	27,895
Amortisation	17,320	30,538
Telecom	7,646	4,500
Business trips expenses	24,015	20,055
Insurance	16,009	23,603
Materials	7,910	17,467
Taxes	4,470	6,599
Professional services	53,972	114,340
	<u>520,545</u>	<u>661,477</u>

## 22. Other operating income and expenses

The components of other expenses for six months ended 30 June were as follows

	<b>Six months ended 30 June 2010 (unaudited) '000 RUR</b>	<b>Six months ended 30 June 2009 (unaudited) '000 RUR</b>
<b><i>Other operating income</i></b>		
(Loss)/gain on property rent, net	(2,156)	1,244
<i>including depreciation</i>	(3,897)	(448)
Other income	13,247	5,357
<b><i>Total other operating income</i></b>	<b>11,091</b>	<b>6,602</b>
<b><i>Other operating expenses</i></b>		
Loss on social business units	(9,242)	(15,958)
Charity and other social expenses	(14,048)	(16,116)
Unrecovered VAT	(7,432)	(5,863)
Loss on disposal of property, plant and equipment, net	(12,051)	(16,670)
Fines and penalties	(5,018)	(4,167)
Other expenses	-	(7,165)
<b><i>Total operating expenses</i></b>	<b>(47,791)</b>	<b>(65,939)</b>
<b><i>Other operating expenses, net</i></b>	<b>(36,700)</b>	<b>(59,337)</b>

## 23. Finance cost

The components of finance cost for six months ended 30 June were as follows

	<b>Six months ended 30 June 2010 (unaudited) '000 RUR</b>	<b>Six months ended 30 June 2009 (unaudited) '000 RUR</b>
Gain on sales of investments held to maturity, net	-	1,731
Interest income	12,435	115,992
Bank charges	(12,786)	(32,800)
Interest expenses – 3 <sup>rd</sup> parties	(391,983)	(193,696)
Interest expenses - related parties	(36,177)	-
<b><i>Finance cost, net</i></b>	<b>(428,510)</b>	<b>(108,773)</b>

**24. Income tax**

	<b>Six months ended 30 June 2010 (unaudited) '000 RUR</b>	<b>Six months ended 30 June 2009 (unaudited) '000 RUR</b>
Income tax benefit/(expense) – current	(57,579)	(3,885)
Deferred tax expense – origination and reversal of temporary differences	(195,567)	(124,691)
Income tax expense	<u>(253,146)</u>	<u>(128,576)</u>

Income before taxation for financial reporting purposes is reconciled to tax expense for six months ended 30 June as follows:

	<b>Six months ended 30 June 2010 (unaudited) '000 RUR</b>		<b>Six months ended 30 June 2009 (unaudited) '000 RUR</b>	
	%	%	%	
Income before taxation	455,876	100	173,950	100
Theoretical tax charge at statutory rate of 20%	(91,175)	20	(34,790)	20
Expenses non-deductible for tax purposes	(161,971)	36	(93,786)	54
Income tax expense	<u>(253,146)</u>	<u>56</u>	<u>(128,576)</u>	<u>74</u>

**24. Income tax (continued)**

Deferred tax assets and liabilities are attributable to the following items:

<b>'000 RUR</b>	<b>30 June 2010 (unaudited) at 20%</b>	<b>31 December 2009 at 20%</b>
<b>Assets</b>		
Property, plant and equipment	7,608	8,761
Inventories	898,708	574,750
Trade and other accounts receivables	301,391	203,607
Trade and other accounts payable	395,693	301,541
Post-employments benefits	28,734	27,858
Lease liability	19,119	855
	<u>1,651,253</u>	<u>1,117,373</u>
<b>Liabilities</b>		
Property, plant and equipment	(155,847)	(183,470)
Intangible assets	(9,069)	(9,010)
Amounts due from customers for contract work	(1,552,290)	(803,928)
Trade and other accounts payable	(8,647)	-
	<u>(1,725,853)</u>	<u>(996,407)</u>
<b>Net balances</b>		
Property, plant and equipment	(148,239)	(174,709)
Intangible assets	(9,069)	(9,010)
Inventories	898,708	574,750
Trade and other accounts receivables	301,391	203,607
Amounts due from customers for contract work	(1,552,290)	(803,928)
Trade and other accounts payable	387,047	301,541
Post-employments benefits	28,734	27,858
Lease liability	19,119	855
	<u>(74,601)</u>	<u>120,966</u>

All changes of the deferred tax were recognized in the consolidated income statement.

Most part of the deferred tax assets will be realized within 12 months after the reporting date.

**25. Personnel expenses**

The components of personnel expenses for six months ended 30 June were as follows

	<b>Six months ended 30 June 2010 (unaudited) '000 RUR</b>	<b>Six months ended 30 June 2009 (unaudited) '000 RUR</b>
Wages and salaries without related taxes:		
Cost of sales	409,606	305,856
Selling and distribution costs	25,857	17,716
Administration expenses	341,924	408,022
	<u>777,387</u>	<u>731,594</u>

## **26. Contingencies, commitments and operating risks**

### *Operating environment of the Group*

Crisis in global markets along with some local factors resulted in high volatility in financial markets of the Russian Federation. Decrease of liquidity, increase in volatility on fixed income, equity markets, and markets of derivatives directly led to investments losses and consequent decrease in scope of loans. Notwithstanding the stability oriented policy undertaken by the government of the Russian Federation, credit markets within which the Group functions are hardly predictable and highly volatile. Increase in rates on interbank credits, global liquidity crisis in banking sector, tightening of lending conditions in the Russian Federation are the evidences of negative dynamics of credit markets. These circumstances attach conditions to ability of the Group to attract new and refund existing loans on terms applicable to the same transactions in the course of its normal business activities. The circumstances mentioned above can directly affect financial performance of the Group in future. The management of the Group considers all its efforts essential to provide stabilized business activities and improved financial position of the Group in current situation.

### *Taxation*

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 30 June 2010 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

### *Litigations*

During the year, the Group was involved in a number of court proceedings as a plaintiff 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 Company.

## 27. Subsidiaries and business combinations

### *Principal subsidiaries and special purpose entity*

The principal subsidiaries consolidated within the Group, and the share of voting interest held by the Group, are as follows:

Entity	Country of incorporation	Activity	30 June 2010 (unaudited) % share	31 December 2009 % share
<i>Subsidiaries:</i>				
PJSC Krasny Kotelschik	Russia	Production	70.84	70.84
PJSC BSKBKU	Russia	Engineering	70.00	70.00
PJSC Engineering Company EMAlliance	Russia	Engineering	100.00	100.00
LLC RO CKTI	Russia	Engineering	100.00	100.00
LLC EMAlliance-TEP	Russia	Engineering	100.00	100.00
Tetra Energia Technologie	Germany	Consultancy	75.96	75.96
LLC EMAlliance-Engineering	Russia	Engineering	74.85	74.85
LLC EMAlliance-Finance	Russia	Financing	-	-
LLC Promishlennik*	Russia	Trading	100.00	100.00
LLC Novye Tehnologicheskie Sistemy*	Russia	Production	75.00	75.00

*\*Subsidiaries of PJSC Krasny Kotelschik*

### *Consolidation of EMAlliance-Finance LLC*

EMAlliance-Finance LLC is consolidated in the Group's financial statements according to SIC-12, as a special purpose entity established for the purpose the Group's financing.

## 28. Post balance sheet events

On July 19, 2010 the Company purchased 782 530 bonds amounting to RUR 785,832k issued by EMAlliance-Finance LLC.

On July 22, 2010 the Company's Board of Directors approved opening a credit line from Sobinbank amounting to RUR 600,000k at 12% p.a. repayable till 28 December 2011. The loan is guaranteed by 50% ordinary shares of the Company.

On August 5, 2010 the Company's Board of Directors approved opening a credit line from Transkapital amounting to RUR 300,000k at 10, 5% p.a. The period of validity a credit line is 12 months.

**29. Earnings before interests, taxation, depreciation and amortisation (unaudited)**

Table below shows EBITDA calculation for six months ended 30 June information purposes only and was not audited.

		<b>Six months ended 30 June 2010 '000 RUR unaudited</b>	<b>Six months ended 30 June 2009 '000 RUR unaudited</b>
<b>Revenue</b>		<b>7,436,703</b>	<b>4,684,870</b>
Gross profit		1,513,078	1,059,020
	<i>% to revenue</i>	<i>20.3%</i>	<i>22.6%</i>
<b>Net profit for the period</b>		<b>202,730</b>	<b>45,375</b>
	<i>% to revenue</i>	<i>2.7%</i>	<i>1.0%</i>
(+) Income tax expense		253,146	128,576
(+) Bank charges		12,786	32,800
(+) Interest expenses		415,725	75,973
(+/-) Exchange gain/(loss), net		(7,760)	(26,187)
(+) Depreciation and amortisation		129,024	136,357
Total EBITDA adjustments		802,920	347,518
<b>EBITDA</b>		<b>1,005,651</b>	<b>392,893</b>
	<i>% to revenue</i>	<i>13.5%</i>	<i>8.4%</i>