



POWER FOR RESULTS

POWER MACHINES

2014

ANNUAL REPORT

MISSION – VISION – VALUES

OUR MISSION

To provide reliable and efficient comprehensive solutions to meet needs of the global energy system by continuously improving our technology and business processes.

OUR VISION

To have the lead on the power engineering market in Russia and the CIS and to be a key player on the global market.

OUR VALUES

- Attention to clients
- Efficiency and promptness
- Innovation
- Safety
- Teamwork
- Respect for people

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ADDRESS FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS



Dear Clients and Partners of OJSC Power Machines!

In 2014, Power Machines continued the implementation of its long-term strategy aimed at development of the scientific-technical and technological potential of the Company, and also strengthening its position in the global power engineering market, justification of the reliable partner image.

At the background of the growing competitiveness at the international market of power machinery-building, as well as subject to unfavourable economic and geopolitical factors, a special focus is made on growth of quality of the manufactured products, reduction of operating costs and more efficient use of resources. Such tasks are based on the customer-orientation concept underlying the Company.

The work to optimize the production processes, to strengthen control on performance of contractual obligations as for the deadlines and quality of the manufactured products has been pursued. The work has been executed on development of the human resources potential, creation of conditions for the professional and career promotion, initiative incentives, support of mastership and involvement of staff into the process of the Company's attainment of goals.

The executed arrangements have brought their gains thereby confirming the correctness of the chosen direction. I am sure that further we need to follow this way, through a continuous development, boost of efficiency, improvement of processes, investments into the HR and technical potential.

The major result of 2014 is that the contractual obligations on a number of large projects of the strategic importance both for Russia, and for other countries have been performed successfully. The Sayano-Shushenskaya Hydro Power Plant, where, in the last year, Power Machines completed a full-fledged project to restore the generating equipment, takes a special place among the plants, which have been updated, repaired, where the new equipment has been installed.

In 2015, and in the longer term, the major aim of development of Power Machines remains the consolidation of the status of a national leader in the power equipment industry. The current economic situation, despite the grave complications, is a perfect potential for growth and makes the domestic productions more competitive.

Expansion and formation of reputation of a reliable supplier of the high tech solutions at the global market of power equipment, in the first line in the overriding areas: South and South-East Asia, Latin America are among the key tasks as well.

The ground for solving the above objectives shall be the implementation of customer-oriented approach, focus on the needs of customers.

Labour safety, costs reduction, flexible and reasonable investment enabling a rise of efficiency and quality of the products, development of new products are also among the priorities of Power Machines. Besides, it is necessary to continue the process on creation of and sustaining the Company's culture, which is based on respect towards people and open dialogue.

The Business System Power Machines that is implemented across the Company's units is the tool to achieve the raised goals. The current economic situation sets higher demands for the quality and range of the services, solutions and products that Power Machines enters the market with. I believe that we have all the essentials to go on the large-scale work, even under volatile market conditions, on development of the Company's potential.

I express my thanks to the partners and customers of Power Machines for fruitful operations in 2014. Generally speaking I am convinced that the target-based strategy, well-invested assets, as well as enthusiasm and high skills of the staff will make it possible for Power Machines to achieve satisfactory results in future.

**Best regards,
Alexey Mordashov,
Chairman of the Board of Directors
OJSC Power Machines**

ADDRESS FROM THE GENERAL DIRECTOR



Dear Shareholders, Partners and Clients
of OJSC Power Machines!

In 2014, Power Machines gained consistent results, despite the difficult and instable economic conditions, and the slowdown of market activity in the area of new and updating of the existing power facilities. The year dynamics of the financial-economic parameters show a stability of the Company's profitability ratios.

The Company's proceeds for 12 months of 2014 went up, if compared with the similar period of 2013, by 5% and made RUR 45,728 mln (2013: RUR 43,491 mln). The gross profitability in 2014 was 29.7% being higher than the industry average parameter. The net profit was RUR 6,149 mln.

In the last year, the amounts of production and load of production facilities were retained at the level of 2013. Thus, the equipment was manufactured for the Belorusskaya and Balakovskaya NPPs, for thermal power plants: Blagoveschenskaya, Novo-Angrenskaya and Omskaya, for the Verkhnetagilskaya SDPP, the Nizhne-Bureyskaya, Zhigulevskaya, Volzhskaya HPPs, Djerdap-1 HPP, etc.

As at the year-end, the order portfolio of Power Machines made 4.683 billion US dollars. Alongside, the aggregate share of contracting of Power Machines in Russia and CIS countries in the general amount of the concluded contracts was 53.8%.

Power Machines is more actively expanding its presence at the international arena, deploying the projects in South-East Asia (India, Vietnam), South American countries, countries of Europe, former USSR countries. The recent conclusion of the equipment supply contract for the Long Phu 1 CHPP in Vietnam was a great achievement. The traditional predominance of the South American area: markets of Brazil, Argentina, Chile, Ecuador, is seen in the foreign market of hydropower area. The geographical expansion is wider as per the service contracts: it also includes Europe, Balkan and Baltic countries.

The last year was marked by the commissioning of the Power Machines equipment at the hydropower facilities of high importance for the Russian energy sector: the Sayano-Shushenskaya, Boguchanskaya HPPs. The Company's representatives were awarded on the national level for a great contribution in repairing the accident at the Sayano-Shushenskaya HPP and development of the fuel and power complex of Siberia.

The last year was marked by a number of events designated for a long run. Thus, the Federal Service on Environmental, Technological and Nuclear Supervision has confirmed the Company's rights to construct and produce the high-speed and low-speed turbines for nuclear power stations.

The first year of successful operation was experienced by "Power Machines – Toshiba. High Voltage Transformers", being the joint venture focused on production of power transformers. Already by June 2014 they manufactured the debuting products.

The development of inter-shop and inter-factor cooperation and re-distribution of the stock-list are going on. The results were not long in coming: in 2014, 17 hydro-turbines were manufactured instead of 12 according to schedule.

Staff health and production safety are still in the focus of the Power Machines officials, who have the task to prevent fatal accidents to the fullest extent possible and to reduce the LTIFR parameter. Following 2014, the LTIFR parameter made 0.34, being 64.6% lower if compared with the similar period of 2013.

In 2015, further growth of operating efficiency, along with reduction of the production costs, will be among the top priorities of the Company. Major liability for attainment of such goals is imposed on the Business System Power Machines, aimed at the analysis of and optimizing all the aspects of the Company's activity, involvement of employees into those processes, initiative incentives and joint searching for new solutions. The Business System's projects are currently integrated into all the business processes and promote the Company in getting the competitive strengths due to optimization of the corporate culture and operating activities.

In general, the year of 2014 was rich for the Company. Power Machines has managed to accumulate the resources necessary for further development. Presently, it is of high importance to use the Company's potential, continuing the long-term projects and creating the new facilities, conquering new markets and developing the staff potential. I am sure this goal will be attained.

Let me express my gratitude to our partners, customers and employees for prolific cooperation and wish a successful realization of the scheduled performance in 2015 for us.

**Best regards,
Roman Philippov,
General Director
OJSC Power Machines**



THE RESULTS OF THE YEAR 2014



ABOUT THE COMPANY

OJSC Power Machines is the largest power engineering company in Russia, with international experience and competence in the area of the design, production, and complete deliveries of equipment for thermal, nuclear, hydraulic, and gas turbine power plants.

Power Machines consists of:

- over 300 GW of the aggregate capacity of equipment installed in 57 countries around the world;
- Russia's largest power plant engineering and design centre;
- a full range of basic power equipment, all meeting international standards;
- a system for continuous improvement of all business processes;
- over 17,000 Company employees around the world.

Today the Company unites:

- the largest manufacturing assets with international references and unique experiences in the development, manufacture, installation, and servicing of manufactured equipment;
- joint ventures, set up in partnership with such international corporations as Siemens and Toshiba to manufacture power equipment;
- the most powerful design bureaus and engineering centres.

Business Units:

- Leningradsky Metallichesky Zavod (founded in 1857) – a manufacturer of turbines and ancillary equipment for hydraulic, thermal, and nuclear power plants;
- Electrosila plant (founded in 1898) – a manufacturer of all types of generators for hydraulic, thermal, and nuclear power plants as well as traction motors and big electric machines.

Subsidiaries and affiliates (engineering and production):

- OJSC TKZ Krasny Kotelshchik (founded in 1896) – the largest Russian manufacturer of high, medium, and low-capacity boilers, recovery boilers, high and low-pressure heaters, and consolidation of all national boiler-making expertise;
- Duro Dakovic Termoenenergetska postrojenja d.o.o. (Croatia) (founded in 1929) – a European manufacturer of boiler and heat exchange equipment. Its production facilities are capable of manufacturing up to 15,000 tons of equipment per year in compliance with European and American standards;
- OJSC Kaluga Turbine Works (founded in 1946) – a leader in manufacturing equipment for the navy, and also for the small and industrial energy sector;
- LLC Power Machines – Reostat Plant (founded in 1960) – a manufacturer of electrical equipment and traction motors as well as large electric machines for the mining, oil, and gas industries. The manufacturer of a complete set of equipment for energy-efficient electric trains;
- OJSC NPO CKTI (founded in 1927) – the research, development of new, and renovation of existing equipment for TPP, NPP, HPP, industrial and public power utilities, the development of standards and regulatory documents, certification testing, activities related to industrial safety and service life, and manufacturing of non-standard equipment.

¹ In addition to the main production site, LMZ includes three segregated manufacturing facilities: ZTL, ZEO and TAG.

Joint Ventures:

- LLC Power Machines – Toshiba. High-Voltage Transformers² (founded in 2011) – a joint venture set up with Toshiba Corporation to manufacture power transformers rated at 110 to 750 kV and 25 to 630 MVA;
- LLC Siemens Gas Turbine Technologies³ (founded in 2011) – a joint venture set up with Siemens to manufacture and service gas turbines.

PRODUCT AND SERVICE PORTFOLIO

Equipment for thermal power applications

- All types of steam turbines with a capacity of up to 1,200 MW.
- Steam geothermal turbines and power generating units.
- All types of turbogenerators with a capacity of up to 1,200 MW.
- Asynchronised turbogenerators with air and combined air-and-water cooling.
- Asynchronised turbochargers.
- Low capacity turbogenerators.
- Electrical automation systems.
- Power boilers for subcritical power generating units with a capacity of up to 660 MW and a steam generating capacity of 160 to 2,000 tons of steam per hour.
- Power boilers for supercritical power generating units with a capacity of 300 to 1,200 MW and a steam generating capacity of 900 to 3,950 tons of steam per hour.
- Recovery boilers made under the license of Nooter/Eriksen (USA).
- Boiler components including burners, nozzles, regenerative and tubular air heaters and calorifiers.
- Metal structures for various purposes: frames, supporting structures, gas/air ducts, hoppers.
- Heat exchange equipment for various purposes, including high-pressure heaters and low-pressure heaters, evaporators, coolers.
- Balance of plant: de-aerators, power plant piping, chemical water treatment equipment, separators, flash boxes.
- Equipment for oil and chemical industries, gas and oil trunk fittings.
- Drive steam turbines.
- Turbogenerator packages.

Equipment for nuclear power applications

- High-speed steam turbines with a capacity of 200 to 1,200 MW.
- Turbogenerators with a capacity of up to 1,200 MW including a T3B-1200-2AV3 turbogenerator with full water cooling.
- Heat exchange and auxiliary equipment: condensers, heaters, oil coolers, ejectors, valves, etc.

² LLC Power Machines – Toshiba. High-Voltage Transformers is a 100% subsidiary of PM&T Holding B.V. – a joint venture between OJSC Power Machines and Toshiba Corporation. Power Machines holds 50% + 1 share in PM&T Holding B.V.

³ LLC Siemens Gas Turbine Technologies is a 100% subsidiary of Siemens Gas Turbine Technologies Holding B.V. (SGTTH B.V.) – a joint venture between OJSC Power Machines and Siemens Company. Power Machines indirectly controls 35% of SGTTH B.V.

Equipment for hydraulic power applications

- Various types of hydraulic turbines with a capacity of up to 1,000 MW, including pump turbines with a capacity of up to 200 MW.
- Pre-turbine gate valves and conduit gate valves of 1.5 to 7.5 meters in diameter.
- Pre-turbine ball valves of 1 to 4 meters in diameter.
- Electrohydraulic governors and oil pressure units for pressures of 6.3 MPA or higher.
- Umbrella, semi-umbrella and suspension-type vertical hydrogenerators.
- Bulb-type hydrogenerators.
- Electrical automation systems: Automated control systems for hydrogenerators and automated process control systems for HPPs.

Equipment for electrical grid facilities

- 110 to 750 kV power transformers and automatic transformers with a capacity over 25 MVA, including of three-phase type.
- 500 to 750 kV shunt reactors.

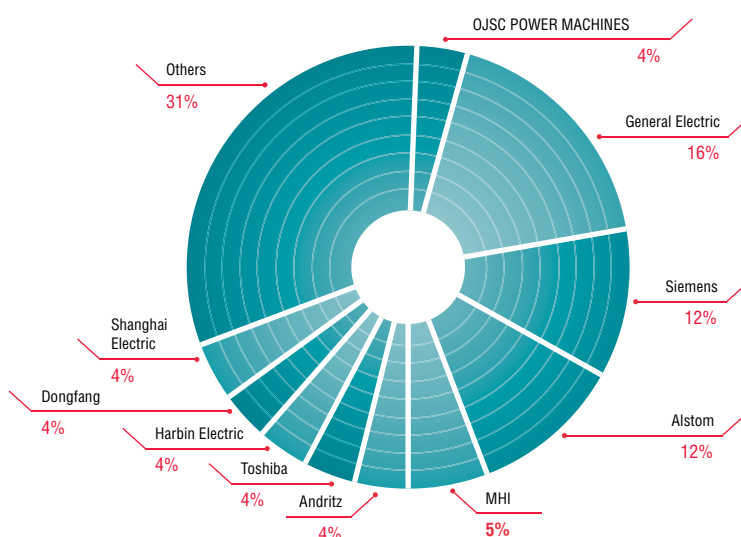
Equipment for industrial and transport applications

- Traction electrical equipment for urban and railway transport, and also for BELAZ dump trucks.
- Synchronous AC generators for marine power plants, stationary and mobile diesel power plants.
- Synchronous traction generators.
- Synchronous and asynchronous AC motors.
- DC electric motors.
- DC and AC electric drives and packaged devices.

The Company has a considerable proportion of power equipment installed across Russia and the CIS countries.

Today Power Machines implements projects in Russia and the CIS, Northern and Eastern Europe, India, Vietnam, China, Latin America, Africa, and further locations.

Installed Capacity Worldwide, in GW



COVERAGE BY REPRESENTATIONS AND AFFILIATES OF OJSC POWER MACHINES





- ARGENTINA
- VIETNAM
- INDIA
- IRAQ
- SERBIA
- SYRIA
- UKRAINE
- LATVIA
- TURKEY
- CHILE

- Representation
- Branch

SUMMARY OF MAIN EVENTS OF 2014

January

- Power Machines and Latvenergo (Latvia) entered into the contract on “turnkey” reconstruction of hydroelectric sets no. 1 and 3 of the Plavinas HPP.
- Modernization of the hydroelectric set no. 2 was accomplished at the Rybinskaya HPP.

February

- Saint Petersburg State Unitary Enterprise Municipal Administration of Inventory and Evaluation of Real Property (GUION) completed the cadastre works and technical inventory of the new production complex of Power Machines to produce power equipment in Metallostroy.
- Power Machines reconstructed the working wheel of the hydroelectric set no. 15 of the Cheboksarskaya HPP (OJSC RusHydro).
- Power Machines and OJSC Syrdarjinskaya Thermal Power Plant (Uzbekistan) entered into the contract for works on modernizing two power units of the Syrdarjinskaya TPP.
- Power Machines and OJSC TGK-11 entered into the contract for production and supply of the equipment for the turbine set no. 10 of the Omskaya CHPP-3.

March

- Power Machines and Latvenergo entered into the contract on “turnkey” reconstruction of three hydroelectric units of the oldest Latvian Hydro Power Plant “Kegum-2”.
- Power Machines in consortium with Energico Oy and the Finnish company “RuukkiOy” entered into the contract for production and supply of power equipment for the new power unit of the Raahe TPP.
- Power Machines won the tender to enter into the supply contract on four complete hot water horizontal heat-recovery boilers for the Yakutskaya SDPP-2 being under construction.

April

- The comprehensive tests and attestation of capacity of the new equipment at the power plant in the unit no. 5 of the Tom-Usinskaya SDPP (a member of the Group “Siberian Generating Company”) were successful. The turbine for the power unit was produced and supplied by Power Machines.

May

- The reconstructed power unit of the Bulgarian TPP “Sofia” was commissioned by Power Machines.
- The eighth out of 10 hydroelectric units made by Power Machines was launched at the Sayano-Shushenskaya HPP by RusHydro.
- LLC Power Machines – Toshiba. High Voltage Transformers (joint venture of Power Machines and Toshiba corporation from Japan) won the tender to supply power transformers of ТРДН type 63000/110 for construction of the Lesnoy Ruchei transforming substation of 110 kV in Vsevolzhsky District of Leningrad Oblast.

June

- The new CCGT-unit combined cycled plant (CCP) with capacity of 230 MW was launched at the Izhevskaya CHPP-1, for which Power Machines manufactured and supplied the gas-turbine plant.
- The new power units of the Belovskaya and Tom-Usinskaya SDPPs were commissioned as equipped with devices by Power Machines.
- Power Machines and OJSC “Irkutskenergo” concluded the contract on supply of four units of working wheels of hydro-turbines for modernization of the Ust-Ilimskaya HPP.
- LLC Power Machines – Toshiba. High Voltage Transformers manufactured the first products: two transformers with voltage type of 110 kV and capacity of 63 MVA, each.

July

- Power Machines and LLP “AES Ust-Kamenogorskaya Hydro Power Plant” (Kazakhstan) entered into the contract for production and supply of the working wheel of hydro-turbine for the second hydroelectric unit of the Ust-Kamenogorskaya HPP.
- The new CCGT-unit combined cycled plant (CCP) with capacity of 230 MW was launched at the Vladimirskaia CHPP-1, for which Power Machines manufactured and supplied the gas-turbine plant.
- The Federal Service on Environmental, Technological and Nuclear Supervision has confirmed the Company’s rights to construct and produce the high-speed and low-speed turbines for nuclear power stations.
- The new CCGT-unit combined cycled plant (CCP) with capacity of 230 MW was launched at Kirovskaya CHPP-3, which was manufactured and supplied by Power Machines.

August

- Power Machines installed the generator's rotor on the last hydroelectric unit of the Sayano-Shushenskaya HPP under restoration.

September

- The Company accomplished modernizing the hydroelectric unit no. 18 of the Zhigulevskaya HPP.
- Power Machines and OJSC Tatneft entered into the "turnkey" reconstruction contract for four boiler units of the Nizhnekamskaya CHPP for burning ash-type petrol coke from the delayed coking unit TANEKO.
- The hydroelectric units no. 7 and 8 were commissioned at the Boguchanskaya HPP, with the equipment of Power Machines.
- The Company accomplished modernizing the hydroelectric unit no. 22 of the Volzhskaya HPP.

October

- Power Machines and OJSC "Ust-Srednekanskaya Hydro Power Plant", as constructed by RusHydro, entered into the contract for supply the main power equipment for the hydroelectric unit no. 3.
- The ceremony of launching the gas-turbine power plant (GTPP) "Novokuznetskaya" (Novokuznetsk), which generating equipment was supplied by Power Machines, took place.
- Power Machines concluded the contract with URRÁ S.A. E.S.P. (Columbia) for capital repair of the hydroelectric unit no. 1 of the Hydro Power Plant "Urta-1" in Columbia.

November

- The ceremony of launching the last, tenth hydroelectric unit of the Sayano-Shushenskaya HPP, which main generator hall equipment was produced by Power Machines. After commissioning of the tenth hydroelectric unit no. 2, the Sayano-Shushenskaya HPP reached its designed reference capacity of 6,400 MW.
- The governmental awards "The Order of Honour of the Russian Federation" were handed to the officials of the Company for a huge contribution into elimination of the accident at the Sayano-Shushenskaya HPP and development of the fuel-energy complex of Siberia.

December

- Power Machines successfully accomplished its participation in the construction project of the La Yesca HPP in Mexico, to which fact the hydro-equipment final acceptance certificate was received, which equipment passed the two-year operation warranty period within the new Hydro Power Plant.
- The new power unit no. 6 of the Belovskaya SDPP, fit with the equipment of Power Machines, was commissioned.
- Power Machines and the affiliate of OJSC Rosenergoatom Concern – Kalininskaya Nuclear Power Plant concluded the contract for supply of the equipment for the central reserve exchange pool (CREP) of the concern designated for the Kalininskaya Nuclear Power Plant.
- The new power unit no. 8 of Cherepetskaya SDPP, with equipment of Power Machines was commissioned.
- The launch of the last, ninth hydrogenerators produced by Power Machines took place at the Boguchanskaya HPP.
- The attestation committee of the Scientific-Research Centre of UES FGC issued the opinion advising to operate the power transformers with the voltage type of 220 kV, with the capacity of 63 MVA manufactured by LLC Power Machines – Toshiba. High Voltage Transformers at the facilities of Rosseti Company.
- The hydroelectric unit no. 2 in the Charvakskaya HPP (Uzbekistan) as modernized by Power Machines was commissioned. Its capacity was increased for 15 MW and reached 170 MW.

COMMERCIAL ACTIVITIES

As of December 31, 2014 Power Machines order portfolio amounted to 4.683 billion US dollars. In 2014, the total percentage of contracting in Russia and CIS countries amounted to 53.8%. The Company's share in the global market of equipment for power generation applications approximated 1%. The amount of contracts executed by Power Machines in 2014 totalled 1,677 million US dollars.

In 2014, the following large contracts were concluded: the Votkinskaya HPP in Russia, Thermal Power Plant "Raahe" in Finland, the La Mina HPP in Chile, the Nizhnekamskaya CHPP in Russia, the Ust-Srednekanskaya HPP in Russia, the Karagandinskaya SDPP in Kazakhstan

OPERATING ACTIVITIES

Power Machines' commercial output in 2014 remained at the level of 2013 in terms of value, amounting to RUR 31,531 mln, alongside in physical terms the Company manufactured the turbine equipment with the aggregate capacity of 2.5 GW and the generating equipment with the aggregate capacity of 4.7 GW.

In 2014, the production amounts were retained at the level of 2013 due to continuation of manufacturing the equipment under projects of RusHydro for the Volzhskaya and Zhigulevskaya HPPs. In 2014, the powerful generator equipment was produced for the Belarusskaya and Balakovskaya NPPs.

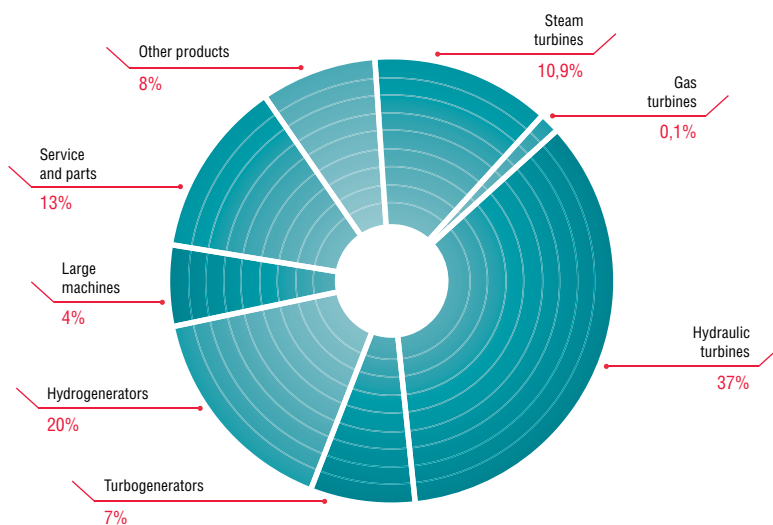
Also in 2014, the equipment was manufactured under large projects for the Blagoveschenskaya CHPP, the Verkhnetagilskaya SDPP, the Charvakskaya HPP (Uzbekistan), Hydro Power Plant Djerdap-1 (Serbia), the Novo-Angrenskaya TPP (Uzbekistan), the Omskaya CHPP-3, the Nizhne-Bureyskaya and Cheboksarskaya HPPs.

Basic power engineering equipment manufactured by OJSC Power Machines in 2013 and 2014

Equipment type	2013		2014		Facility name (2014)	Country	qty	MW
	qty	MW	qty	MW				
Turbo-generators	7	3,725	5	2,397	Belarusskaya NPP, unit1	Belarus	1	1,200
					Balakovskaya NPP	Russia	-	400
					Novo-Angrenskaya TPP	Uzbekistan	1	325
					Verkhnetagilskaya SDPP	Russia	1	160
					Omskaya CHPP-3	Russia	1	130
					Blagoveschenskaya CHPP	Russia	1	110
					Novobogoslovskaya CHPP	Russia	-	72
Hydrogenerators	10	1,618	10	1,291	Zhigulevskaya HPP, no. 17, 14, 13, 16	Russia	4	500
					Volzhskaya HPP, no. 2, 9, 6, 5	Russia	4	500
					HPP Djerdap-1, no. 1	Serbia	1	211
					Nizhnebureyskaya HPP	Russia	1	80

Equipment type	2013		2014		Facility name (2014)	Country	qty	MW
	qty	MW	qty	MW				
Steam turbines	7	2,140	2	250	Verkhnetagilskaya SDPP	Russia	1	130
					Blagoveschenskaya CHPP	Russia	1	120
Hydro turbines	13	1,388	17	2,167	Zhigulyovskaya HPP, no. 14, 13, 17, 16, 20, 7, 8, 11	Russia	8	1,000
					Volzhskaya HPP, no. 6, 2, 1, 7, 15, 14, 10	Russia	7	875
					HPP Djerdap-1, no. 4	Serbia	1	197
					Ust-Kamenogorskaya HPP	Kazakhstan	1	95
Heavy machines	251	-	285	-	OJSC BELAZ 240 t	Belarus	117	-
					OJSC BELAZ 90 t	Belarus	114	-
					OJSC BELAZ 160 t	Belarus	39	-
					OJSC BELAZ 11.5 t	Belarus	3	-
					OJSC "Uralmashzavod"	Russia	9	-
					Amidas Securitec company	UAE	2	-
					OJSC "Kovdorsky GOK"	Russia	1	-
Services	-	2,111	-	1,129.1	Smolenskaya NPP	Russia	-	400
					Balakovskaya NPP	Russia	-	150
					Cheboksarskaya HPP, no. 13, 3, 10	Russia	-	138
					Tyumenskaya CHPP-1	Russia	-	88
					Kurskaya NPP	Russia	-	75
					Kolskaya NPP	Russia	-	55
					Krasnoyarskaya HPP	Russia	-	50
					Charvakskaya HPP, no. 4	Uzbekistan	-	38
					Kolskaya NPP	Russia	-	33
					TPP "Konasima"	India	-	33.6
					TPP "Vinjchal"	India	-	28
					CHPP-22 OJSC "Mosenergo"	Russia	-	27.5
					Volzhskaya CHPP	Russia	-	13

**Manufactured products at OJSC Power Machines in 2014, in %
(per price index)**



FINANCIAL PERFORMANCE

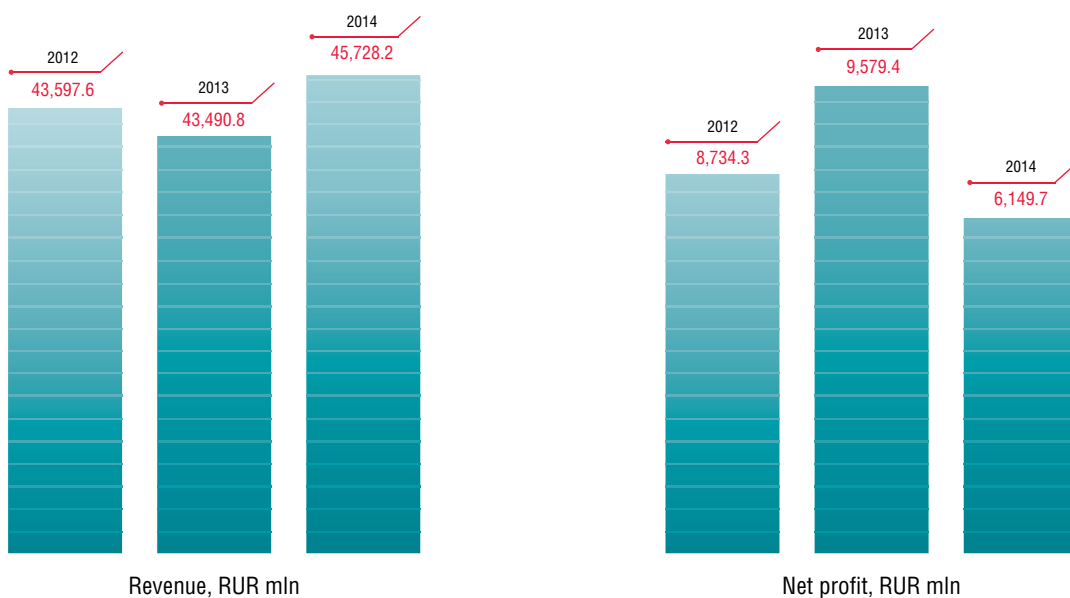
Despite the slow-down of activity in the construction of new, and renovation of existing, power facilities, the Company demonstrated satisfactory financial performance in 2014.

The Company's revenues over the 12 months of 2014⁴ made RUR 45,728 mln.

The Company's gross profit amounted to 29.7% in 2014, being higher than/equal to the industry average parameter.

The sales profit of Power Machines following the year of 2014 made RUR 9,369 mln, the net profit was RUR 6,149.7 mln.

Cash inflow from operating activities in 2014 amounted to RUR 31,757 mln. Cash as of the end of 2014 made RUR 5,022 mln.



⁴Accounting data is based on Russian Accounting Standards.

CREDIT RATINGS

On 11.07.2014 the international rating agency Moody's confirmed the credit ratings previously assigned to Power Machines:

Rating type	Value	Rating date
Global corporate credit rating	Ba1/stable	25.07.2013
Default probability rating	Ba1-PD	
National scale corporate credit rating	Aa1.ru	

Ratings were obtained by Power Machines in accordance with the corporate stock market operations program that involved loans raised upon bonds.



POWER MACHINES' DEVELOPMENT PROSPECTS



POWER ENGINEERING MARKET

PRIMARY ENERGY RESOURCES

Today hydrocarbon fuels account for about 70% of the electric energy generated worldwide. About 33% of electric energy is generated by coal-powered TPPs. NPPs account for about 10% of the global fuel and energy balance. The total share of renewable energy sources, including water resources, is about 20%. According to the International Energy Agency, by 2040 natural gas and nuclear fuel will have higher shares in energy generation than coal but the largest portion of electric energy will be generated by fossil-fuelled power plants. Among fossil fuels, gas will demonstrate the highest growth rates (2.1% per year).

ELECTRIC ENERGY CONSUMPTION

According to the consented forecast, electric energy consumption amounted to about 21 trillion kWh worldwide in 2014. Global energy consumption is to grow by 1.5% yearly until 2035. The growth rates are predicted to gradually decrease, however, and global electricity consumption may be down to only 1% per year after 2020, which is due to slow-downs in economic growth rates in the world, and the implementation of energy efficiency strategies Southeast Asian and Latin American countries will account for the greater portion of this growth. This notwithstanding, electricity consumption per capita will remain at a fairly low level in these countries as compared to developed countries.

According to the System Operator of UES, electric energy consumption within the Unified Energy System of Russia amounted to 1,014 bln kWh in 2014, 0.4% more than in 2013. The mid-term electricity consumption growth in Russia is expected to be 1 to 1.5%.

THERMAL POWER

The global installed capacity of TPPs amounted to about 4,239 GW in 2014. More than 60% of the TPPs use steam power equipment. New high-performance technologies are the key area of development for the thermal power sector. These are primarily powerful steam units (600 to 1,000 MW), rated for supercritical and ultra-supercritical steam parameters, and also for combined cycle plants, as based on latest-generation high-performance gas turbines. Coal gasification is also becoming an increasingly more popular technology and is predicted to be widely used after 2020.

HYDRAULIC POWER

The global installed capacity of HPPs amounted to about 1,068 GW in 2014. According to the International Energy Agency's long-term forecast, the installed capacity of HPPs may be a half larger by 2040. About 90% of new HPPs will be put into operation in developing countries, which is due to the facts that developed countries have made the most of their hydraulic power potential, and that new environmental constraints have been introduced. The USA and Western Europe, for example, have deployed over 80% of hydraulic power potential, whereas only 25% or less has been deployed in China and India, with Africa, Asia, and Latin America accounting for 80% of the global, economically viable and undeveloped hydraulic power potential.

Based on projects that are being implemented around the world, both large HPPs (with a capacity over 1 GW) and medium and low-capacity HPPs are expected to be constructed long-term.

NUCLEAR POWER

The global installed capacity of NPPs amounted to about 347 GW in 2014. In addition, about 86 GW of new NPP capacities were under construction in 2014, alongside approximately a half of them in South and Southeast Asia, especially in China and India where nuclear technologies are widely used. The number of new NPPs to be put into operation long-term is not expected to decrease on a global scale.

The total installed capacity of NPPs in Russia amounted to 25.3 GW as of the end of 2014.

UNCONVENTIONAL RENEWABLE ENERGY SOURCES

The total installed capacity of generation capacities based on unconventional RES, amounts to about 220 GW. The installed capacity of RES power plants may have reached the installed capacity of HPPs by 2025. Renewable energy sources, including NPPs, HPPs and unconventional RES, are expected to account for about a half of the total generated energy by 2035.

Energy facilities using wind, solar, and geothermal energy maintain their status as the most rapidly developing and investment attractive projects.

SUMMARY OF POWER MACHINES' COMPETITIVE ADVANTAGES

Power Machines keeps pace with modern energy development trends by actively pursuing innovative policies related to the development of its range of products. In particular, low-speed turbo-sets with a capacity of 1,200 MW for NPPs applications and steam turbines with a capacity of 660 MW and higher for ultra-supercritical steam parameters are being developed, as well as a pump turbine that is being designed for heads of up to 100 m to be used in PSPPs. At the same time, Power Machines is the leader in manufacturing high-speed turbo sets for NPPs and produces a wide range of hydraulic power equipment to be used at various operating parameters.

While developing its product offering, the Company implements programs that are targeted at improving client focus, including the Power Machines' Business System, which is designed to optimize the Company's manufacturing, functionality, and marketing processes while also improving customer satisfaction.

POWER MACHINES' DEVELOPMENT STRATEGY

Power Machines' long-term strategic development goal is to maintain and reinforce their status as the national leader in the power engineering industry, enhance their market presence, and establish a reputation for the provision of reliable supplies of state-of-the-art high-performance solutions on the global power equipment market, mainly in the priority regions of South and South-east Asia and Latin America.

With this goal in mind, the Company has objectives in optimizing production, increasing output, and improving efficiency in fulfilling its orders, specifically met by unconditionally meeting contract schedules and ensuring high-quality products. At the same time, the Company considers the expansion of its business to the level of world industry leaders.

The mid-term sales targets of Power Machines are approximately as follows:

- 55–60% – of the Russian market;
- 45–40% – of export markets.

The priority development activities as identified by the Company to meet its set objectives are to:

- Increase the Company's production capabilities under the integrated investment program, which is primarily focused on improving existing manufacturing facilities and constructing a new plant in a suburb of Saint Petersburg. In 2012, the first start-up facility was constructed, ending the project aimed at manufacturing a new power engineering product for Russia – a low-speed steam turbine for NPPs. Additionally, the output of high-capacity (over 500 MW) steam turbines and turbo-generators for large carbon blocks is planned to be increased in addition to the existing range for further development of the new facility.

- Carry out cost improvement activities, which become necessary in an increasingly competitive environment.

Power Machines implemented a number of cost improvement projects with support from one of global consulting leaders (purchase cost reduction, total production optimisation, adaptation of costs to new economic conditions (PARUS), lean manufacturing, Design to Cost). The cost improvement process has now moved from the design stage to continuous improvement. Current activities include purchase cost reductions in the Company as well as cost improvement for local programs at manufacturing sites.

New, state-of-the-art equipment is purchased in accordance with Power Machines' investment program; research and development activities are targeted at improving the processing efficiency of the Company.

The utilization of the value in use model has been considerably enhanced, which allows the Company to evaluate the efficiency and attractiveness of its products for potential clients, and is a guarantee that the processes of developing new, and improving currently produced, equipment will be done more efficiently.

At the same time, the Company is continuously working at reducing overhead, administrative and selling costs, and at eliminating duplicated functions.

Presently the Company takes advantage of the full-scale Business System of Power Machines, which is aimed to involve as many employees as possible in the Company's business optimization process. This program, targeted at occupational safety, continuous optimization, customer satisfaction, innovative products and efficient business processes, should considerably increase the labour productivity and competitiveness of Power Machines' products.

- Expand the range of products to related business segments in order to meet market demands for high-quality power engineering products.

After acquiring 100% holding of shares in OJSC EMAlliance, the leading Russian manufacturer of boiler equipment, in 2012, Power Machines was able to combine the design and manufacture of both turbine and boiler equipment, which allows for complete sets of equipment and services to be provided – this is an approach required by today's power industry.

As another step to become the leading manufacturer of power equipment in the world, the Company set up a joint venture with Toshiba to manufacture and supply power transformers. The joint venture enables the task of comprehensively modernizing backbone grid facilities to be solved based on the most advanced and innovative technology. The plant was put into trial operation in December 2013.

- Establish market partnerships and joint ventures, as well as to participate in industry consolidation processes, to reinforce its position as a global player in the power engineering market.

Power Machines' gas turbine business is being developed in close cooperation with Siemens. The Russian-German joint venture is engaged in the research and development of new gas turbines, local manufacturing content, assembly, sales, project management and the after-sales service of gas turbines.

The Company's investments will remain at the level of 2014 or lower in the coming years since most of investments were made in business development over previous years. Also no global mergers or acquisitions are expected in the near future, but local acquisitions are not excluded where economically feasible.

- Diversify the revenue mix by increasing a share of services.

Services and the sales of parts accounted for about 20% of the Company's revenue mix in 2014. With the high profitability of services and the growing demand for renovation of equipment, especially on priority markets, Power Machines works intensively to enter into long-term service agreements for turbine and generator equipment, the manufacture and distribution of spare parts, and also in the establishment of a renovation market for steam turbines in the development of renovation packages in order to dominate the market.

- Speed up the processes of developing new, advanced products.

Power Machines is constantly designing and developing world-class products across the product range while looking to become an original equipment supplier for turbine islands across the offering spectrum.

Efforts are focused on strategic, high value-added products such as turbines for NPPs including low-speed turbo sets with a capacity of up to 1.6 GW, steam turbines rated for supercritical and ultra-supercritical steam parameters with a capacity of 660 MW and higher, environmentally friendly and efficient hydraulic turbines, and also equipment packages for them.

Moreover, Power Machines considers developing turbines for a network frequency of 60 Hz, chiefly for American countries where markets are promising due to their volume and the considerable age of installed equipment.

- Improve planning and monitoring methods.

The Company has completed a project with a SAP-based ERP system introduced. Power Machines' management set the task of improving and optimising business processes through creating an integrated information system, enabling the Company to operate in a single information field.

The fulfilment of this task will increase business transparency, as more accurate, timely, and reliable information will be obtained as necessary for all the Company's departments to function normally and make reasonable managerial solutions on a timely basis

- Implementation of project management methods.

From 2012 to 2014, the average share of "turnkey" projects made 75% worldwide. Deployment of such projects without an adequately developed competence of the project management in the Company is exposed to some risks. In this view, within the bounds of Power Machines Business System the project management improvement program was initiated, having a special regard to the contract's performance phase. The major part of the module presented itself in development of the project management based on the best global practices. This project is aimed at meeting the needs of the customer at all stages of the sales project through use of the modern project management system.

In addition, Power Machines makes considerable efforts to implement strategic initiatives such as to:

- replace the equipment supplies from foreign manufacturers at the domestic market;
- increase the level of contracting on external market segments with the ongoing steady demand for power engineering products;
- enhance cooperation with clients where government institutions are the majority shareholders;
- work through issues of obtaining concessional loan pools (including from government institutions) to finance investment program;
- work with potential customers, helping them to obtain relevant loans and finance new capacity construction and retrofiting projects;
- optimize the Company's product portfolio using the capacities of OJSC KTZ, OJSC TKZ Krasny Kotelshchik and partners' facilities in accordance with the production cooperation program;
- improve the skills of the Company's personnel.

Power Machines' target structure of output implies that the priorities of the 2030 Energy Strategy of Russia are met, including location parameters of nuclear power facilities.

The implementation of Power Machines' investment plans should also result in the qualitative improvement of the production efficiency and economic performance of the Company as a whole.

In addition to this, it is still in the Company's strategic priorities:

- meet consumer expectations;
- look toward reliable and long-term supplier relations;
- maintain and augment human capital assets;
- comply with all occupational health, safety, and environmental requirements.



RESEARCH AND DEVELOPMENT AND INVESTMENTS



RESEARCH AND DEVELOPMENT POLICY

The core components of the R&D policy of Power Machines in 2014 were:

- developing new, innovative products with technical specifications exceeding comparable products in the world;
- involving institutes of the Russian Academy of Sciences and other leading domestic scientific organisations in development of new products;
- developing facilities for engineering departments, research laboratories, laboratory facilities, and also improving personnel skills;
- stimulating the flow of qualified personnel and youth into engineering and research departments;
- increasing the patent coverage of new design strategies, software programs, and technologies developed within the Company.

Following its Development Strategy, the Company continued to implement innovative projects in 2014 towards the development of competitive products:

- further improvement of the project for a designed and manufactured high-speed steam turbine for NPPs with a capacity of 1,200 MW and speed of 3,000 rpm, including for export supplies;
- a low-speed steam turbine with a capacity of 1,255 MW and a speed of 1,500 rpm and generator on the VVER-TOI project;
- steam turbine for TPPs with a capacity of 660 MW, rated for ultra-supercritical steam parameters;
- renovation packages for steam turbines with a capacity of 200 to 1,200 MW, with improved technical and economical performance;
- a TVF-660-2 hydrogen-cooled turbo-generator;
- renovation packages for TGV series turbo-generators;
- pump turbines for pumped storage power plants;
- synchronous and asynchronised generator motors, with excitation system and triggering device, for pumped storage power plants.

In 2014, the Company's professionals worked to increase the efficiency and technical level of steam turbines and hydro-turbines, in particular:

- conceptual development of the low pressure cylinder with an enhanced capacity for prospective turbines of TPPs and NPPs;
- reference and experiment examination of the vibration reliability of the ultimate stages of the steam turbines at power plants;
- development of the range of prospective hydro-turbine wheel-space parts;
- development of the concept and design of the ultra-high pressure pump-turbine for water head up to 800 m, for surface and underground PSPP.

The Company went on working to develop innovative products at the large power machines' market, in particular a set of the AC electric drive for EKG-18 excavator.

The nation's leading scientific and educational institutions were engaged in research and development in 2014 as follows:

- A. A. Blagonravov Engineering Science Institute of the RAS;
- S. L. Sobolev Institute of Mathematics and of the Siberian Branch of the RAS;
- S. S. Kutateladze Institute of Thermophysics of the Siberian Branch of the RAS;
- OJSC NPO CKTI;
- Saint Petersburg State Polytechnic University;
- National Research University MEI;
- CRISM Prometey;
- Central Research Institute for Engineering Technology.

The key focuses of the R&D program in 2014 were in:

- creating high-efficiency flow paths for steam turbine and hydraulic turbine equipment, whether new or renovated;
- creating the steel impellers for the last stages of powerful low-speed and high-speed steam turbines, of 1,220 mm and 1,760 mm length, and the experimental processing thereof at the brassboard;
- developing and studying new materials, component designs, and calculation methods for improved reliability of steam turbine and hydraulic turbine equipment;
- introducing modern calculation and design methods for designing power equipment parts;
- testing new structural components of equipment on an experimental basis in order to improve their efficiency and reliability;
- analysing the functioning of equipment installed by Power Machines at power plants and giving recommendations to improve technical and economical performance.

The Company places high emphasis on introducing new technologies. In particular:

- mastering the welding procedure for low-pressure welded rotors of low-speed turbines and composite rotors for turbines with ultra-supercritical steam parameters. The automated ultrasound control of welded rotors is being implemented;
- developing the technique to produce the welded workpieces of the double deck grid valves.

INVESTMENT ACTIVITIES AND MODERNIZATION

As stipulated in Power Machines' 2014 business plan, RUR 1.6 bln were channelled into the Company's investment program in the reported year. Both proprietary and borrowed funds were used to finance the program.

The 2014 investment program was a continuation of the Company's strategic development, aimed at creating a modern industrial facility with renewed, strategically distributed assets, cutting production costs generally, and introducing new product types with specifications that meet or exceed its equivalents globally.

The following was commissioned at the LMZ production site in 2014:

- heavy turning machine designed for processing rotors of turbines and generators of steam turbines, shafts and intermediate shafts of hydraulic turbines;
- drilling machine on magnetic bearing, enabling to reduce the complexity of performance of works on processing of pinholes in steam turbines' cylinders;
- laser tracker, enabling to reduce the complexity of performance of works on controlling the components of the hydraulic turbines' wicket gates.

Investments for the LMZ facility amounted to about RUR 337.8 mln.

In 2014, the following was commissioned at the Electrosila's manufacturing facility:

- milling machining centre that has made it possible to increase productivity and precision of machining the parts;
- numeric control turning-revolving centre that has made it possible to cut down and improve the parts' manufacturing process;
- laboratory for testing and examining the power devices of special production, ensuring the regular testing of products for defence procurements.

In 2014, investments into the Electrosila's manufacturing facility was targeted to sustain the level of production and made about RUR 70 mln.

The arrangements were carried out to ensure further development, particularly of power supply and engineering infrastructure, at manufacturing areas of the Company's new power equipment plant in the industrial area of Metallostroy.

An extensive research and development program was another focus of Power Machines' investment program.

Furthermore, the 2014 investment program included activities aimed at:

- developing the Company's manufacturing and laboratory facilities for more efficient model testing;
- improving social and communal services to the Company's employees;
- industrial and fire safety, health and safety;
- improving information technology and maintaining the available IT base.

INTELLECTUAL PROPERTY

The main purpose of intellectual property right management is to ensure the competitiveness of the Company's products as per provision of the technical level and patent-legal parameters, to protect investments in investment projects, and strengthen the Company's position in world markets.

Power Machines pursues a uniform policy related to intellectual property right management with the following focal points:

- to protect the Company's economical interests related to intellectual property;
- to secure that the Company has the exclusive rights for intellectual deliverables (ID), created by employees while developing the new products and modernization of the previously made equipment;
- formation of intangible assets subject to the researching results to enhance the value of the Company's assets and reduce the self-cost of the output products;
- to commercialize the Company's IP rights for ID through alienation of exclusive rights or provision of the right to use them;
- to stimulate the creation of new design and engineering and technical solutions.

Based on the patent and analytical researches made, there is a continuous monitoring of technical level of the output products, patentability determination for technical solutions, novelty examination.



CORPORATE GOVERNANCE



CORPORATE GOVERNANCE PRINCIPLES AND IMPLEMENTATION THERE OF IN THE COMPANY

Power Machines' corporate governance system is based on uniform corporate standards and is targeted at sustainable development and the long-term appreciation of the Company's equity value.

Systematic approach, transparency and efficiency are the core values forming the foundation of the implementation of the following principles of corporate governance at the Company:

- Compliance with applicable laws.

Power Machines ensures that all requirements of the Russian corporate law are met and tends to comply with international corporate governance standards.

- Efficiency of the Board of Directors.

The key task of the Board of Directors is to determine priority areas in the business activities of the Company, establish development concepts and strategies of the Company for the purpose of increasing earnings and competitiveness, ensuring efficient investments in the Company, and encouraging its sustainable development.

- Transparency of Procedures.

The work procedure of Power Machines management and control bodies is set forth in the Articles of Association and the Regulations for the General Meeting of Shareholders, the Board of Directors, the Management Board, and the Audit Commission. All documents are available at the corporate site www.power-m.ru.

- Disclosure of Information.

Information disclosure principles adhered to by the Company are set out in the Information Policy Regulation adopted in 2004. Information about the Company is published in the form of press releases in mass media, including on the Company's website.

BOARD OF DIRECTORS

Power Machines' Board of Directors acts in accordance with the Federal Law On Joint-Stock Companies, the Company's Articles of Association, and the Regulations for the Board of Directors. The Company's Board of Directors is elected by the General Shareholders Meeting and consists of eight members.

Power Machines' Board of Directors effective in 2014 (elected by the sole shareholder on 28.06.2013 and 03.04.2014):

- V. Chechnev
- A. Egorov
- R. Elkin
- I. Kostin
- V. Lukin
- A. Mordashov
- A. Rantsev
- I. Voskresensky

INFORMATION ON THE MEMBERS OF THE BOARD OF DIRECTORS⁵

Alexey Mordashov,

Chairman of the Board of Directors, OJSC Power Machines;

General Director, PAO Severstal

Born in 1965; graduated from Leningrad Institute of Engineering and Economics; MBA from the Newcastle Business School, Northumbria University.

Vadim Chechnev,

Director of Economics and Finance, OJSC Power Machines

Born in 1970; graduated from Cherepovets State University; Moscow International Higher Business School MIRBIS; MBA from the London Metropolitan University.

Alexey Egorov,

Deputy General Director, PAO Severstal

Born in 1953; graduated from Moscow State Pedagogical Institute.

Roman Elkin,

Head of the Corporate Control Department, CJSC Severgroup

Born in 1979; graduated from Vologda State Technical University.

Igor Kostin,

General Director, OJSC Power Machines

Born in 1972; graduated from Cherepovets Higher Military Engineering School of Radioelectronics; Cherepovets State University; MBA from the Newcastle Business School, Northumbria University.

Vladimir Lukin,

Deputy General Director for Legal Affairs, PAO Severstal

Born in 1978; graduated from Moscow State University named after M. V. Lomonosov.

Alexandr Rantsev,

Strategic Development and Controlling Director, OJSC Power Machines

Born in 1972; graduated from Cherepovets Higher Military Engineering School of Radioelectronics; MBA from the Newcastle Business School, Northumbria University.

Igor Voskresensky,

General Director, LLC Universal Invest

Born in 1968; graduated from Bryansk Institute of Transport Engineering; Saint Petersburg Humanitarian University of Trade Unions.

⁵ The members of the Board of Directors do not hold Power Machines' shares. The members of the Board of Directors did not acquire or dispose of any of the Company's shares in the accounting year.

ACTIVITY OF THE BOARD OF DIRECTORS IN 2014

The Board of Directors held 14 meetings (4 in the form of joint presence and 10 in the form of absentee voting) in 2014.

Issues addressed by the Board of Directors included Company results, its participation in other companies, approvals of new versions on Provisions on insider information and on the Audit and Risk Committee of the Board of Directors of Power Machines, and also issues related to transaction approvals. The Board of Directors resolved on placement of interest non-converted certified exchange bonds for the bearer, with the mandatory centralized custody of series 50-01, 50-02, 50-03, 50-04, 50-05 and 50-06, the Resolutions on issue of securities and the Prospectus for Securities were approved. Recommendations were given to the sole shareholder concerning the amount of a dividend as well as payment procedure and timing.

Furthermore, in 2014 the Board of Directors of Power Machines considered increasing the authorized capitals of its subsidiaries, opening/closing down the representative offices.

Information on the agendas of the meetings held by the Board of Directors, and also on separate decisions taken by the Board of Directors, was disclosed by the Company in the form of essential fact notices.

CORPORATE SECRETARY

The Corporate Secretary ensures that the Company's management bodies and executives observe corporate governance procedures, applicable laws, Articles of Association, the Corporate Code of Conduct, other internal documents from the Company, and that corporate governance standards are supported and developed within the Company in accordance with applicable laws, and the best corporate governance practices.

As stated in Power Machines' Articles of Association and Corporate Secretary Regulation, the Corporate Secretary is, at the same time, the secretary of the Board of Directors and of its committees, and also functions as the secretary of the Company's General Shareholders Meeting.

The Corporate Secretary's scope includes the following responsibilities:

- to facilitate the activities of the Board of Directors;
- to prepare and hold General Shareholders Meetings (sole shareholder's decisions);
- to give advice on corporate governance issues;
- to prepare materials for information disclosure in accordance with Russian laws (including the analysis, transfer, and storage of information);
- to perform other functions relating to the competence of the Corporate Secretary in accordance with the Articles of Association, and Corporate Secretary Regulation.

Stanislav Izmailsky was elected as the Corporate Secretary of Power Machines on October 31, 2014 (born in 1980, graduated from Saint Petersburg State University of Aerospace Instrumentation, Law Department).

⁶ Polina Sukhareva acted as the Company's Corporate Secretary from February 26 to October 31, 2014

GENERAL DIRECTOR

The management of the current activities at Power Machines is the responsibility of the sole executive body – the General Director⁷.

The General Director is elected by the Company's Board of Directors. The General Director is entitled to represent the Company's interests in any dealing with all individual or legal representatives, including governmental bodies and their associations, to employ and dismiss employees of the Company, issue orders, approve the Company's staffing tables, make transactions on behalf of the Company, and take any other necessary actions, as long as they are consistent with applicable laws, the Company's Articles of Association, internal documents, and also with the agreement signed between them and the Company.

Igor Kostin was elected Power Machines' General Director on October 24, 2007. On March 07, 2013, the Board of Directors of Power Machines resolved to elect (extend the powers) of the General Director, Igor Kostin⁸.

SHARE CAPITAL

Power Machines' authorized capital is 87,089,387.08 roubles as of December 31, 2014. The Company's authorized capital is divided into 8,708,938,708 ordinary shares with a par value of 0.01 rouble each.

HIGHSTAT LIMITED is the sole shareholder of Power Machines. Alexey Mordashov is the ultimate beneficiary of HIGHSTAT LIMITED.

Power Machines' shares were not listed by the organisers of trade on the securities market in 2014.

CORPORATE BONDS

In 2014, the coupon yield on the Company's bonds series 02 was paid for the period (coupon periods):

From 10.10.2013 to 10.04.2014	
Yield payable on bonds of the issue, in monetary terms, as per each bond of the issue, RUR	40.39
Yield payable on bonds of the issue, in monetary terms, in aggregate on all bonds of the issue, RUR	403,900,000.00
Prescribed term (date) for payment of yield on bonds of the issue	10.04.2014
Total yield paid on all bonds of the issue, RUR	403,900,000.00

⁷ Alexandr Rantsev acted as the Company's General Director from January 19 to April 09, 2015. By the Resolution of the Board of Directors of 03.04.2015, Roman Philippov was elected as the General Director of OJSC Power Machines to act since April 10, 2015.

⁸ The General Director does not hold any of Power Machines' shares. The General Director did not acquire or dispose of any of the Company's shares in the accounting year.

From 10.04.2014 to 09.10.2014	
Yield payable on bonds of the issue, in monetary terms, as per each bond of the issue, RUR	40.39
Yield payable on bonds of the issue, in monetary terms, in aggregate on all bonds of the issue, RUR	403,900,000.00
Prescribed term (date) for payment of yield on bonds of the issue	09.10.2014
Total yield paid on all bonds of the issue, RUR	403,900,000.00

On July 16, 2014 the stock exchange Bonds of the Company of series 50-01, 50-02, 50-03, 50-04, 50-05 and 50-06 were included into the THIRD LEVEL of the List of Securities Admitted for Trading on the MICEX Stock Exchange.

On August 21, 2014, the Bank of the Russian Federation resolved to invalidate the issues of the Company's bonds series 03 and 04 as long as no security of the said issues was offered.

DIVIDENDS

Power Machines guarantees and recognizes the dividend right as one of the most important shareholder's rights.

When issuing recommendations regarding the payment of stated dividends, the Board of Directors is governed by existing laws and the Company's Articles of Association.

The sole shareholder of Power Machines – HIGHSTAT LIMITED made the following decisions in 2014:

- on April 03, 2014 – to pay a dividends out of the undistributed profits remaining after tax as of 31.12.2013:

The size of a stated (accrued) dividend per share, RUR	0.904744
The cumulative dividend stated (accrued) for all shares of a given category/type, RUR	7,879,360,042.43
The total dividends paid for all the Company's shares of the same category/type, RUR	7,879,360,042.43

- on May 13, 2014 – to pay a dividends out of the undistributed profits remaining after tax as of 31.03.2014:

The size of a stated (accrued) dividend per share, RUR	0.723327
The cumulative dividend stated (accrued) for all shares of a given category/type, RUR	6,299,410,508.84
The total dividends paid for all the Company's shares of the same category/type, RUR	6,299,410,508.84

- on September 15, 2014 – to pay a dividends out of the undistributed profits remaining after tax as of 30.06.2014:

The size of a stated (accrued) dividend per share, RUR	0.25825
The cumulative dividend stated (accrued) for all shares of a given category/type, RUR	2,249,083,421.34
The total dividends paid for all the Company's shares of the same category/type, RUR	2,249,083,421.34

DETERMINATION CRITERIA AND REMUNERATION AMOUNT FOR THE GENERAL DIRECTOR AND MEMBERS OF THE BOARD OF DIRECTORS

The remuneration amount and payment terms for Power Machines' General Director are stated in the labour contract, as approved by the Company's Board of Directors. The amount of remuneration depends on whether the identified key performance indicators have been achieved.

Decisions on the remuneration for the members of the Board of Directors are made at the General Shareholders' Meeting (be the sole shareholder). Members of the Board of Directors were not paid any remunerations or bonuses for their work in Power Machines' Board of Directors in 2014.

Information on payment of remuneration and (or) cost compensation to members of the Board of Directors Measuring unit: thousand roubles

Parameter's name	for 2014
Remuneration for taking part in the management body	-
Salary	160,131
Bonuses	194,354
Fees	-
Privileges	-
Cost compensation	-
Other types of remuneration	-
TOTAL	354,485

AUDITING COMMISSION

Power Machines' Audit Commission acts in accordance with Russian laws, the Company's Articles of Association, Regulations for the Audit Commission, and consists of three members who are elected at the General Shareholders Meeting for a term (as resolved by the sole shareholder).

The Audit Commission is a body which controls all the areas involving the financial and economic activities of the Company, its branches and representative offices and that they comply with existing laws, the Company's Articles of Association, all regulations, guidelines, orders, and instructions given by the Company's management entities.

The efforts of the Audit Commission are focused on creating investor confidence in Power Machines and their management entities. The main goal of the Audit Commission is to protect the Company's assets and increase its profitability and competitiveness.

Power Machines' Audit Commission effective in 2014, which was elected by resolutions of the sole shareholder:

28.06.2013 and 03.04.2014

- M. M. Kutimskaya
- E. V. Pirogov
- L. N. Khusnullina

17.11.2014

- M. M. Kutimskaya
- A. E. Montvidas
- L. N. Khusnullina

Information on the members of the Audit Commission⁹ as of 31.12.2014

Maria Kutimskaya,

Head of Internal Auditing, Internal Control and Auditing Department, Economy and Finance Directorate, OJSC Power Machines

Born in 1978; received her higher education at the Saint Petersburg State Academy of Engineering and Economics.

Alexandr Edvardo Montvidas,

Senior Manager, Corporate Control Department, CJSC Severgroup

Born in 1976; received his higher education at the Cherepovets State University, Saint Petersburg State Polytechnic University, Higher School of Economics: Higher School of Management.

Lyudmila Khusnullina,

Head of the Internal Control and Auditing Department, Economy and Finance Directorate, OJSC Power Machines

Born in 1973; received her higher education at the Plekhanov Saint Petersburg State Institute of Mines; Moscow Institute of Industrial Economics and Management.

⁹ The Auditing Commission's members do not hold any of Power Machines' shares. The Auditing Commission's members did not acquire or dispose of any of the Company's shares in the accounting year.

AUDIT AND RISK COMMITTEE OF THE BOARD OF DIRECTORS

The Audit and Risk Committee of the Board of Directors is set up with the purpose of improving the performance of the Board of Directors in open communications with external auditors, the Audit Commission, internal audit, and departments responsible for the Company's reporting.

The activities of the Power Machines' Audit and Risk Committee of the Board of Directors are governed by the Regulations for the Audit and Risk Committee.

The Audit and Risk Committee of the Board of Directors effective in 2013 (elected on 26.07.2013 and 30.04.2014 by the resolution of the Board of Directors):

- R. V. Elkin;
- V. A. Lukin;
- V. K. Chechnev

Roman Elkin was elected as the Chairman of the Audit and Risk Committee of the Board of Directors.

The Audit and Risk Committee of the Board of Directors had four meetings in 2014 to review and prepare recommendations for the Company's Board of Directors regarding the following issues, which are within the Committee's competence:

- risks related to the Company's activities;
- the Company's management and financial statements;
- external auditing;
- internal auditing;
- internal control procedures.

AUDITOR

Auditing services are provided to OJSC Power Machines by KPMG – a highly professional advisor with a reputation that has proven to be impeccable.

KPMG is a member of the Auditing Chamber of Russia – a self-regulated organization of auditors, and also a member of the following professional associations: the Russian Union of Industrialists and Entrepreneurs, the Association of Russian Banks, the National Corporate Governance Council, the Russian Venture Capital Association, the Association of European Business; the US Chamber of Commerce, the Russo-British Chamber of Commerce, the Russian-German Chamber of Commerce, the Russian-American Business Council, the Canada, Eurasia, and Russia Business Association, the European Business Congress, the Business Leaders' International Forum, the Japanese Business Club, the Association of Industrial Stocks, the National Organization on Financial and Accounting Standards.

KPMG audited the Company's 2014 financial statements, which were prepared in accordance with Russian and international accounting standards.

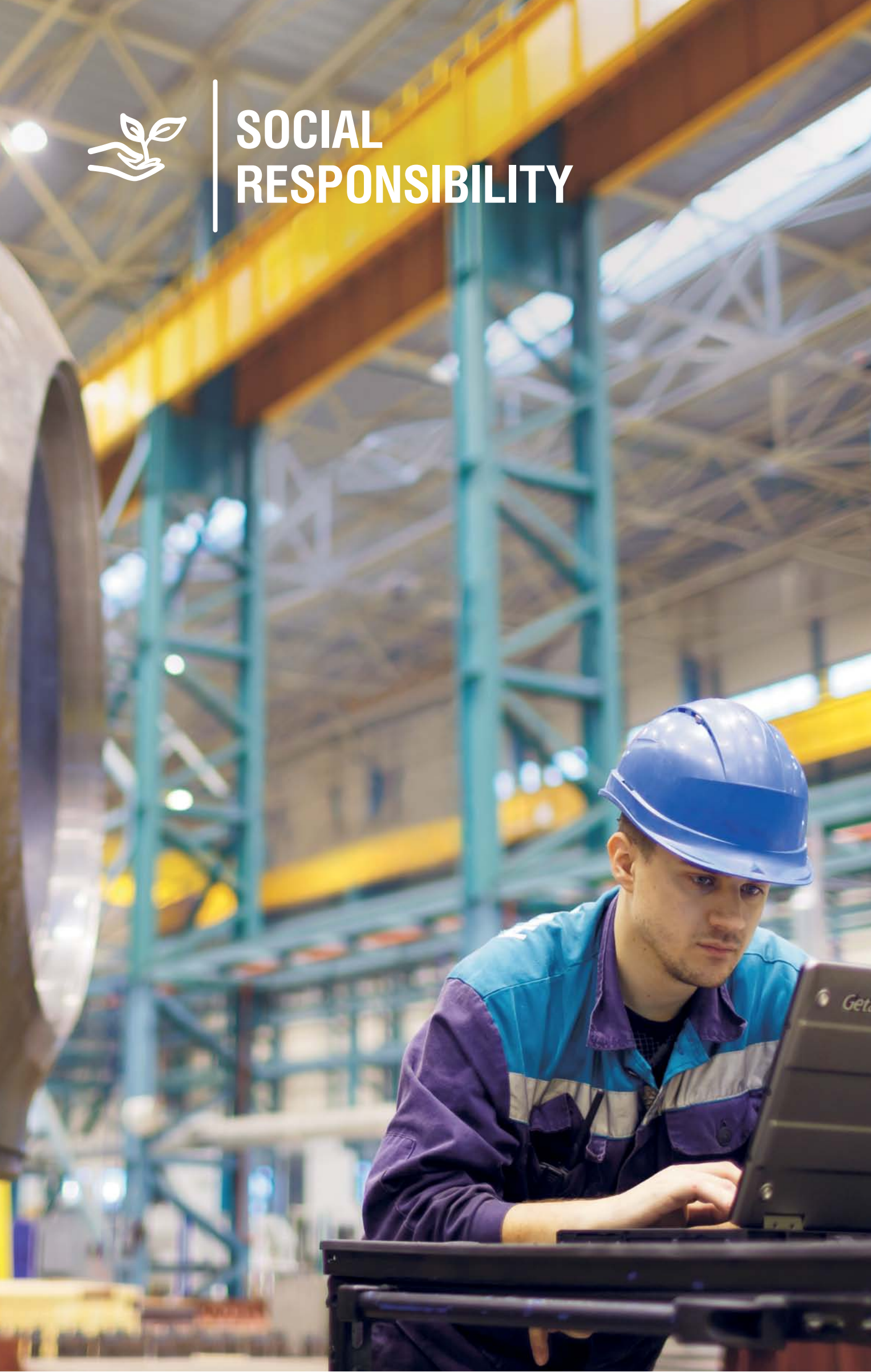
REGISTRAR

The register of Power Machines shareholders is maintained by LLC PARTNER, which is an independent professional Registrar.

Registrar location	22 prospekt Pobedy, Cherepovets, Vologda Oblast, Russia
Contact number	(8202) 51-72-04
Saint Petersburg Branch	LLC PARTNER
Branch location	163 Moskovsky prospekt, building 2, Saint Petersburg, Russia
Contact number	(812) 388-98-53



SOCIAL RESPONSIBILITY



HR POLICY

The Company's HR policy is targeted at creating a team of professionals sharing the same goals who are motivated to work efficiently, increasing the welfare of employees, and building an open communication system.

Power Machines places a high emphasis on personnel training and development issues, with corporate training programs, seminars, workshops and skill development programs organised for the Company's employees. Power Machines channelled over RUR 63 mln into personnel development in 2013, enabling the training of more than 6,500 Company employees.

Among main training areas in 2014, a special focus was put on training of employees within the bounds of the projects included in Power Machines' Business System:

- The People of Power Machines is a project aimed at creating an efficient team of professionals committed to the Company's goals and sharing its values, support and promotion of Power Machines Business System, implementation of common standards of operation, reinforcement of the cross-functional communications. 769 employees were trained in this project, including in the major area:
 - Achieve More Together program. The program is focused on training and development of managers and staff reserves of the Company; in 2014 it was attended by 135 persons, including the officials of OJSC Kaluga Turbine Plant, LLC Power Machines – Reostat Plant, LLC Power Machines – Toshiba. High Voltage Transformers.
 - Master Class program. According to the content and format, Master Class is arranged within a single concept with the Achieve More Together and is focused on training and development of production line managers; in 2014 the program was attended by 318 persons, including the officials of OJSC Krasny Kotelshchik, Kaluga Turbine Plant.
 - Sinumerik 840 D Siemens Management System program. It is intended for the programmable control machine operators; 55 persons passed through the course; there were 15 corporate courses on SAP areas (160 people got training). The Company's profile specialized programs involved the leading professionals of our Company.
- Continuous Improvement is aimed at increasing operating efficiency to utilize the best world practices through a continuous improvement process. 406 persons were trained on topics: Problem Solution Tools, Autonomous Service, TPM: Equipment General Care, Continuous Improvement Tools.
- With its Client Focus, the Company aims at creating a system to identify customer needs and accurately translate them into specifications for products, services, and business processes. 60 employees worked on their skills in customer relations.
- By implementing the Project Management Improvement, the Company sets an objective of satisfying customer needs throughout the sales process while using an advanced project management system to ensure meeting target profitability. The training consisted of four modules: project management, project schedule management, cost management, project quality management. These were attended by 26 employees, 7 corporate experts were trained.

The Company still holds the training for employees of design engineering and technological units within the framework of the project called Engineering Development Improvement. In 2014, 16 design bureau employees' development programs (365 participants) and 8 technical department employees' development programs (101 employees) were arranged.

Standing within the traditions, in 2014 they held the 5th Conference of Young Specialists of Engineering-Technical Services (more than 70 participants) and The 2014 Best Designer Contest (12 participants). Heads of the designing departments noted that speeches of the young specialist were given a boost. According to the General Designer of Power Machines, Vladimir Demianov, the qualification of participants of the Conference and the quality of speeches went up significantly, many speeches "were as profound as PhD theses". Besides, in 2014 the Conference was actively attended not only by the Company's employees, but also students of such famous universities as the National Research University of the Moscow Power Engineering Institute and the Saint-Petersburg State Polytechnic University. The 2014 Best Designer Contest was attended, for the first time, by the design engineer from Kaluga Turbine Plant, who further won the contest with the award: The Best Designer on power machines automation systems.

In order to develop the professional competences, the Company's employees took part in various workshops: on accounting, legal and personnel matters, on technical service of the production equipment, etc. In total, 103 employees got training on professional development programs in 2014.

Pursuant to the requirements of the governmental controlling authorities, the industrial and occupational safety training was organized with a further attestation.

Within performance of the equipment supply contracts as per external customers (the entities buying the Company's equipment), the information and consulting services were rendered to the specialist of the following plants: Tom-Usinskaya SDPP, Permskaya CHPP-9, Vladimirskaia CHPP-2, Mosenergo CHPP-12, Kirovskaya CHPP-3, OJSC BELAZ, etc.

While seeking to attract young specialists, the Company implements an occupational guidance program for undergraduates of vocational schools, colleges, and universities, who meet with the Company's representatives and visit its business units.

All types of practical training including on-the-job training, engineering training, and pre-graduation practice are annually organized for senior students and graduates of educational institutions. In 2014, 314 students took the internship and 273 students were on tour through Power Machines.

SOCIAL COOPERATION

Power Machines wants to be the most attractive employer in Russian industry, creating the best conditions for career development, and professional and intellectual growth of its employees.

Social partnership is mainly targeted at creating a team of like-minded people, sharing the Company's values and committed to common goals.

The Company annually implements social programs aimed at improving labour conditions and the quality of life of its employees, and establishing partnership relations with the team.

Thus, in 2014 Power Machines' workers and their families were given 1,762 vouchers for visits to health and recreation resorts for treatment, for health improvement and rest, and also weekend vouchers. The Company compensated for up to 70% of vouchers to health and recreation resorts and facilities for its employees, and up to 90% of vouchers for employees exposed to harmful and/or hazardous labour conditions.

In 2014, Power Machines arranged trips for their employees' children to children's healthcare camps in the Leningrad Region, the Black Sea coast, and paid for the trips as provided in the Collective Agreement.

Corporate meals were provided at each of the Company's manufacturing sites with involvement of catering companies, providing for an option of full dinner at the fixed price. One of the canteens was structurally repaired; the new equipment was purchased.

Employees exposed to harmful and/or hazardous labour conditions were supplied with milk and fruit juice, and also medical examinations were held on a timely basis. Blood donation days were held at each of manufacturing facilities during 2014. Medical care was financed at the expense of the Company, national social security funds and employees.

Employees from other towns were provided lodging in the municipal hostels, for which the Company entered into agreements; others were provided with a monetary compensation for the rented accommodation.

The total lump-sum retirement allowance paid by the Company to its employees in 2014 amounted RUR 2,624,600 and the financial aid amounted to RUR 5,220,318.

A separate focus of the social partnership program is both the execution of cultural & educational, and sports & health activities, which help strengthen corporate spirit and enhance employee relations. Various cultural and sports & health events are held on a regular basis by the Company in accordance with this program. In 2014, these included the annual Spartakiada Games, the 11th Power Machines Concern Soccer Championship, as well as the winter and summer tourist camps. Performances of Theatre at Liteiny and Our Theatre were shown, meetings with writers, literature critics and other people of art were arranged especially for the Company's employees.

Employees were kept up-to-date about major events in the life of Power Machines in 2014. Employees obtained information from the corporate weekly newspaper, corporate TV news, intranet web-site and a network of information boards. Information conferences of the general Director, during which the top manager shares information about the current position of the Company and replies the brought questions is a separate vital channel for communication between the Company's employees and officials.

OCCUPATIONAL HEALTH AND SAFETY

OCCUPATIONAL SAFETY

In regard to occupational health and safety, the Company is governed by Russian legislation, particularly by the Labour Code of the Russian Federation and other regulatory-legal enactments of the Russian Federation, and also the Company's standards and the Collective Contract.

In 2014, there were 5 incidents in the Company, 68.7% less than in 2013. The incidents were mainly caused by individual negligence and carelessness of the injured when doing their job.

As compared to 2013, in 2014 the Lost Time Injury Frequency (LTIFR) decreased by 64.6% in the Company.

Occupational disease are caused by imperfection of the technological process, whereby it is impossible to prevent the employee's contact with harmful and (or) hazardous production factors and a long service of employees with harmful labour conditions (from 28 to 44 years).

Employees involved in heavy work or exposed to harmful and/or hazardous labour conditions (specific temperatures or contamination) were supplied with special clothes and footwear, personal and collective protective equipment, and also washing agents, barriers, and replenishing creams. In 2014, the Company spent RUR 84,452.7 thousand for health and safety activities, including RUR 51,254.3 thousand to acquire special clothing and personal protective equipment.

The mandatory regular medical examination of the employees subject to impact of hazardous and unfavourable factors of the production environment and labour conditions was conducted in 2014. 5,465 employees were examined in total. Following the examinations, the heads of the units obtained the certificates with recommendations to create the relevant labour conditions. The employees, who had not passed through the mandatory regular medical examination, as well as in case of counter-indications, were not permitted to operations.

Keeping with the Program for the Operational Control of the Compliance with Sanitary Rules and Anti-Epidemic (Preventive) Activities, laboratory and instrumental investigations were conducted to measure occupational hazards at workstations across the Company's departments (measurements of dust and gas content in the air, occupational noise, vibration, illumination, micro-climate parameters, and electromagnetic emissions (including laser emissions)). Where occupational hazards were found to exceed maximum permissible values, actions were developed and taken to bring labour conditions in line with optimum and permissible values. At the same time, the control of application of personal protective equipment, eliminating the harmful effect on health of the employees, is intensified.

The quality of drinking water inside the water supply system is monitored on a monthly basis in accordance with SanPiN 2.1.4.1074-01. 253 samples of water were made. The physical and chemical tests were made on 121 samples, bacteriological tests were made on 132 samples of drinking water from the central water supply systems. By bacteriological parameters, all the samples were in line with the SanPiN standards, by chemical parameters, some samples exceeded the threshold allowable concentration of iron that was connected with the condition of water lines.

Aimed at ensuring the water mode, drinking water purifiers intended to purify, aerate and cool down the water coming from the cold water supply in 2014 were maintained and repaired.

In 2014, there were 66 scheduled inspections on compliance with the requirements of the occupational safety in the Company's units. Following the inspections, 31 prescriptions were provided to the units and 66 certificates were issued. Works were continued to introduce the rating security audits, allowing to evaluate the performance of the occupational safety and industrial safety control systems comprehensively, and to identify physical security risks in the units.

Three documents on occupational safety and health and environmental protection management system, basic safety rules and new guideline on occupational safety were developed and effected in Power Machines in 2014.

In 2014, the introductory briefing on occupation safety was made to newly employed persons and employees of the contracting entities (in total 2,347 persons).

Employees of the units were trained as for the occupational safety and first aid regulations.

The Financial Plan on preventive measures to reduce the industrial injuries and occupational diseases, and health resort treatment of the employees occupied on works with harmful and (or) hazardous production factors was prepared and accomplished at the cost of insurance contributions to the Social Insurance Fund of the Russian Federation. Reimbursement of the Company's costs by the Social Insurance Fund of the Russian Federation for regular medical examinations of employees, purchase of personal protective devices and first aid kits amounted to RUR 29,889 thousand.

INDUSTRIAL AND FIRE SAFETY

In the area of industrial and fire safety, the Company is guided by the Federal Laws “On Industrial Safety of Hazardous Production Facilities” “On Fire Safety” and other legal and regulatory enactments of the Russian federation, the Company’s standards and Collective Contract.

Pursuant to the Regulation on production control over compliance with the industrial safety requirements at hazardous production facilities of Power Machines, the control was exercised by the comprehensive and scheduled inspecting method.

The reported period involved:

- 35 comprehensive inspections;
- 47 scheduled inspections.

Following the inspections, 527 adjustments and preventive arrangements were developed for the purpose of eliminating the detected violations, including 503 arrangements from the above were completed. 24 arrangements were scheduled for 2015.

Following the inspections, operation of 17 technical appliances was suspended until the failures were removed.

17 officials were made liable for a failure of requirements of the job profiles as regards the provision of safe conditions for operating the technical appliances.

12 employees occupied as crane operators and sling operators were made liable for a failure of requirements of the production profile while operating the technical appliances.

The following works in the area of industrial and fire safety were performed in 2014:

- Plans to localize and liquidate the accidents for 5 hazardous production facilities of the Company were developed, coordinated and approved.
- ZTL’s boiler room stacks were conserved.
- Industrial safety of technical devices at the Company’s hazardous facilities was examined.
- 27 technological maps for handling works through overhead cranes for production units of the Company were developed.
- The products certification authority confirmed the validity of certificates for the load-handling attachments (crosshead, clamps) manufactured by the production units of the Company.
- 4 automatic fire alarm systems and automatic fire suppression systems were installed and commissioned in the production and administration buildings of the Company.
- Maintenance (recharge, warranty and service maintenance) of fire extinguishers was made according to applications from the Company’s units.
- The Services Agreements were made for:
 - maintenance of the gas contamination control system in the premise of the KMT test centre in Electrosila plant;
 - maintenance of automatic fire alarm systems and automatic fire suppression systems installed in the Company’s units;
 - maintenance of forces and tools of the professional emergency rescue units in constant readiness to respond to emergencies and monitor the hazardous industrial facilities of the Company to identify preconditions for emergency situations;
 - emergency maintenance of gas pipelines and gas equipment of hazardous production facilities in the Company;
 - activities for prevention of fires and 24 hours long control of fire safety conditions in the buildings and premises within the Company.

ENVIRONMENTAL PROTECTION

The Company's environmental activities are carried out in accordance with Russian environmental laws and within the allowable limits of environmental impact.

In 2014, total gross air emissions were within the set limits.

The following drafts were elaborated in 2014, of:

- standards on waste formation and waste disposal limits for ZTL and ZEO, and also the new waste disposal limits were approved for ZTL;
- admissible emissions into the air for TAG.

In accordance with the Program for the Operational Control of the Compliance with Sanitary Rules and Anti-Epidemic (Preventive) Activities, the noise and air emissions were examined at the borders of the sanitary-protective area of the Company's sites. Following the examinations, no excess of threshold allowable concentration of pollutants in the air was detected.

Waste mercury containing lamps in the amount of 22,405 pieces were taken out from the Company and surrendered to deactivation in 2014.

In 2014 the following documents were received for DOL "Ovrage" and DOL "Ozerny":

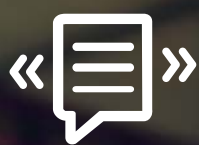
- sanitary-epidemiological opinion on using the water facilities for drinking and domestic water supply;
- authorization to transfer the water facility (Sukhodolskoye lake) for use.

67 comprehensive inspections of the Company's units as regards the compliance with the requirements of the environmental law were conducted in 2014. Following the above inspections, the heads of the units issued 12 prescriptions and all the comments were resolved on time.

CHARITY

Power Machines' charity policy is focused on providing support for veterans who were formerly Company employees. Targeted assistance to veterans is managed by Power Machines' Benevolent Fund, whose objectives are to provide material support to veterans, organise anniversary and commemorative concerts, trips, and meetings with the Company's management and trade union leaders. The veterans are conventionally invited to large corporate events.

Power Machines annually hold a pre-New Year campaign to collect gifts for children in orphanages, and also money for children in need of expensive treatment. Any of the Company's employees who are interested are encouraged to participate in the campaign. In 2014, gifts were collected for orphans from asylums in Saint Petersburg and the Leningrad Region; the Company went on cooperating with the social movement "Parents of Petersburg".



APPENDIX



RISK FACTORS¹⁰

Risk	Impact	Countermeasures, comments
Commercial risks		
Intensification of competition	High	<ul style="list-style-type: none"> ■ Improve the quality and competitiveness of products and services. ■ Improve pricing process, reduce expenses. ■ Diversify the range of products (equipment in various generational types). ■ Focus on clients, including using a value-in-use approach and customer loyalty increase program when preparing technical and commercial proposals. ■ Actively work with customers to promote the products, including in regard to modernization and renovation. ■ Increase the supplies of power equipment packages (including boiler and transformer equipment), manufactured by the Company itself, and expand services simultaneously. ■ Maintain the leading position on the internal market, and make active efforts in external sales markets. The Company's external market activities are focused in Latin America, South and Southeast Asia, which have the greatest market potential both in terms of development prospects and from the perspective of sales of the Company's product line. ■ Partnerships with local and foreign suppliers for joint participation in projects where part of equipment and services to be supplied are not in the Company's range.
Modifications in investment programs of potential customers, leading to frozen projects and extended schedules.	High	<ul style="list-style-type: none"> ■ Diversify the foreign sales markets (active market efforts in near and far countries abroad). ■ Rapidly develop services, and switch to long-term after-sales service practices. ■ Diversify the range of products (equipment in various generational types).
Increase in the Company's production costs	High	<ul style="list-style-type: none"> ■ Improve manufacturing cycles, optimize the procurement of materials and components needed for production, reduce expenses. ■ Develop partnerships with external manufacturers for the purpose of possibly placing orders for work pieces/parts of equipment. ■ Import-substitution trend.

¹⁰ Major risks that can have a significant effect on Power Machines' operating activities, sales, profit, assets, liquidity and capital resources. All assessments and forecasts shall be considered in association with the risks listed in this annual report.

Risk	Impact	Countermeasures, comments
Commercial risks		
Appearance of new power equipment on the market capable of competing with equipment manufactured by the Company in both economic and technical aspects	Moderate	<ul style="list-style-type: none"> ■ Expand the range of products, including development of new equipment, capable of satisfying all customer requirements. ■ Standardize the product line in order to reduce expenses and production time. ■ Improve the technical and economic performance of available equipment, and expand renovation packages for the equipment manufactured by the Company. ■ Develop renovation packages for new equipment (incl. that of competitors) including long-term after-sales service programs.
Change in prices of materials and raw materials used to manufacture power equipment	Moderate	<ul style="list-style-type: none"> ■ Use a price escalation mechanism in for long-term contracts. ■ Select product, service, and material suppliers competitively, and expand the competitive environment by engaging more product suppliers. ■ Plan and reserve metal products for a longer cycle of production, optimize procurement activities.
Legal risks		
Amendments to tax legislation	Moderate	<ul style="list-style-type: none"> ■ Tax legislation is the most fluid branch of law, and its provisions are often subject to amendments, additions, and updates. Tracking amendments in tax legislation and related state policy, and also studying draft amendments allow the Company to minimize risks and potentially adverse effects.
Amendments to customs regulations and duties	Moderate for the external market	<ul style="list-style-type: none"> ■ Since part of the Company's sales markets, as well as some of its suppliers, are located outside the Russian Federation, amendments to customs regulations and customs duties could result in an extended amount of time required to perform obligations to customers, and also in increased production costs for some types of products, work, or services. Seeking to minimize risks, the Company monitors amendments in customs legislation and considers possible risks when agreeing on performance dates and prices of products, work or services.

Risk	Impact	Countermeasures, comments
Legal risks		
<p>Amendments to judicial practice, concerning matters related to the Company's activities (including licensing issues), which could adversely affect its operating results and disputes with third parties</p>	<p>Insignificant</p>	<ul style="list-style-type: none"> ■ Amendments to judicial practice with an adverse effect on the Company are considered as insignificant. Relevant departments of the Company regularly monitor judicial practice to minimize the risk.
Technical risks		
<p>Strengthening of requirements for the technical and economic performance of power equipment</p>	<p>Low</p>	<ul style="list-style-type: none"> ■ Increase the scientific-technical skills for the purpose of creating the modern and competitive equipment. ■ Conduct applied and fundamental research. ■ Develop the design and engineering departments. ■ Work with higher educational institutions and research institutes to engage highly skilled and promising specialists.
<p>Risks related to the use of new technology, methods, and new materials in the design of power equipment</p>	<p>Low</p>	<ul style="list-style-type: none"> ■ Develop the Company's laboratory facilities to conduct field and model testing. ■ Engage external R&D firms to improve the reliability and efficiency of manufactured equipment. ■ Apply the modern technologies and equipment while producing that ensure the high quality of the manufactured products. ■ Improve production engineering.

Risk	Impact	Countermeasures, comments
Technical risks		
Emergencies and emergency situations involving equipment manufactured or supplied by the Company	Moderate	<ul style="list-style-type: none"> ■ Quality control while producing, including through use of the state-of-the-art methods of non-destructive testing. ■ Improve production engineering. ■ Implement the modern automation systems for regulation, monitoring and diagnosis of manufactured power equipment.
Financial risks		
Currency risk (the risk of losses under export and import contracts as a result of deviations in contract price currency rates from payment currency rates)	Moderate	<ul style="list-style-type: none"> ■ Consider the currency risk when establishing the contract price. ■ Select the contract currency with a favourable rate change forecast for the Company. ■ Include a currency clause or price escalation in contracts and agreements with a significant import component in the cost. ■ Take measures to reduce the cost of commercial products. ■ Diversify the Company's order portfolio structure. ■ Match the revenue and spending of the payment budget with a breakdown of each of the main currencies. ■ Make foreign exchange transactions with banks at the best favourable rates on a competitive basis.
Interest rate risk (risk of decrease in profits as a result of an unfavourable change in interest rates of financial transactions)	Moderate	<ul style="list-style-type: none"> ■ Forecast changes in financial market conditions. ■ Select fixed-income tools. ■ Pursue a conservative foreign borrowing policy.

Risk	Impact	Countermeasures, comments
Financial risks		
<p>Credit risk (the risk of losses as a result of the weakened financial standings of customers, banks, guarantors).</p>	<p>Moderate</p>	<ul style="list-style-type: none"> ■ Introduce a procedure to assess the solvency and reputation risks of business partners. ■ Select business partners on a competitive basis. ■ Assess the sovereign bond rating of the guarantor state (if a sovereign guarantee is provided by the contracting party). ■ Introduce the Company's payment policy: make bargains with buyers under settlement conditions that require maximum advance payment and the supply of products against payment). ■ Broadly use tools that improve the reliability of contract settlements (letters of credit, whether opened or confirmed by a reliable bank, bank guarantees, sureties). ■ Diversify the company's order portfolio by region (various regions of the world were differently affected by the global financial crisis and are recovering at different rates), seek to increase the share of export in revenues.
<p>Risk of negative changes in liquidity of the Company</p>	<p>Moderate</p>	<ul style="list-style-type: none"> ■ Take measures to reduce the cost of the Company's own manufactured products, increase re-sale efficiency. Establish and strictly adhere to profitability targets, broken down by the subject of transaction (equipment supply, renovation, services). ■ Improve conditions of settlements with buyers: <ul style="list-style-type: none"> ■ increase advance payment volumes; ■ agree on payment schedules that are as close as possible to the schedule of production costs and settlements with sub-suppliers. ■ Improve the conditions of settlements with suppliers: <ul style="list-style-type: none"> ■ decrease advance payment volumes; ■ maximum payment against performance. ■ Monitor accounts payable and receivable. ■ Accelerate the Company's asset turnover. ■ Diversify (currency, time limits, banks) placement of temporary funds.

COMPLIANCE WITH THE CORPORATE CODE OF CONDUCT

Power Machines wants to keep up with the best corporate governance practices, and follow the guidelines outlined in the Corporate Code of Conduct, as advised by the Bank of Russia that shall be applied by the joint stock companies, which securities are permitted for organized biddings.

Board of Directors of the Company

The Company forms the Board of Directors, which:

- specifies the major long-term strategic benchmarks of the Company's, key parameters of the Company's activity;
- controls the activity and specifies the policy on remuneration of the Company's executive bodies (General Directors).
- specifies the principles and approaches to risk management and internal control in the Company.

The Regulation on Board of Directors of Power Machines records the procedure to prepare and hold the meetings of the Board of Directors, ensuring that the members of the Board of Directors will be able to have a due preparation for the meeting, and in particular provides for:

- the deadline for notifying the members of the Board of Directors about the meetings;
- the deadline for filing the voting polls and receiving them back at meetings in absentia;
- the option to file the written opinion on issues of the agenda and to have it accounted for the members of the Board of Directors not attending the physical meeting.

The Board of Directors includes the adequate number of independent directors. Thus, as of December 31, 2014 the Board of Directors of Power Machines included four independent directors out of 8 elected directors.

The Company's Board of Directors has the Audit and Risk Committee. Functions of the Audit and Risk Committee are recorded in the Regulation on the Audit and Risk Committee of the Board of Directors of Power Machines and in general accords with the requirements of clause 172 of the Recommendations of the Corporate Governance Code.

Corporate Secretary of the Company

The Company appoints the Corporate Secretary, who is subordinate to the Board of Directors, is appointed and removed upon resolution of the Board of Directors.

The Company's Board of Directors approved the Regulation on Corporate Secretary of Power Machines. Content of the Regulation on Corporate Secretary is generally in line with the Recommendations of the Corporate Governance Code.

Corporate Secretary has the functions in accordance with the Recommendations of Corporate Governance Code and possesses adequate resources for him to carry out his functions.

Remuneration system for the members of the Board of Directors, General Director and other key executives of the Company

Members of the Company's Board of Directors can have, during their functioning, remunerations and (or) compensations of costs related to performance of their functions as members of the Company's Board of Directors. Amount of such remunerations and (or) compensations is established by the resolution of the General Meeting of Shareholders (by the resolution of the sole shareholder).

The Company does not permit the members of the Board of Directors to take part in the option programs, and the right to sell shares is not stipulated by achievement of particular performance.

The Company regulates all the payments, graces and privileges to be vested to the members of the Board of Directors, General Director and other key executives of the Company.

As the Company specifies the amount of remuneration to the General Director and other key personnel, both the performance of the Company and his/their personal contributions to such achievements are taken into account.

Risk management and internal control system

The Company's Board of Directors determine the principles and approaches to the risk management and internal control systems in Power Machines.

Internal audit is conducted through the separate structural unit acting in the Company: Internal Audit Department of the Economy and Finance Directorate.

For the purpose of having the efficient system to counteract corrupt practices and ensuring that Power Machines companies act in line with the requirements of the international anti-corruption law, the Company has adopted and uses the Policy to Counteract Corruption in Power Machines and Related Legal Entities.

For timely detection and analysis of risks in the Company's activity, as well as for authenticity of the financial, management information and accounts, performance of the Company's financial activities and business, the Board of Directors has approved the Regulation on internal control of Power Machines.

Disclosure of information about the Company, information policy of the Company

The Company has the Regulation on information policy, ensuring the efficient information interaction of the Company, shareholders, investors and other concerned parties.

The Company holds regular meetings with investors and customers, organizes press conferences dealing with important events that take place in the Company.

The Company in a timely fashion discloses full, acute and true information for ensuring that the Company's shareholders and investors will make the relevant decisions.

The Company in a timely fashion discloses information pursuant to the requirements of the law. Information is disclosed subject to the regularity, consistency and promptness principles, as well as principles of adequacy, relevance, completeness and comparability of the disclosed data.

Major corporate actions:

The Company's Articles of Association specifies the list (criteria) of transactions or other actions being material corporate actions, consideration of which is attributed to the competence of the Company's Board of Directors:

- decision-making on transactions in respect to the participatory interests, shares or securities convertible into shares owned by the Company, which will or might cause an alienation or encumbrance thereof;
- approval of transactions on alienation or purchase of fixed assets and intangible assets in excess of 3 percent of the Company's assets as of the recent reported date.

The major reason why the Company complies with the corporate governance principles recommended by the Bank of Russia, not to the fullest extent, is the lack of time for implementing all the recommendations after their effective date.

POWER RESOURCES USE

Energy resources used in 2014

	Type	Unit of measurement	In value, RUR thousand
Electric energy	204,647,760.38	kWh	572,780
Thermal energy	168,244.71	Gcal	190,589
Natural gas	28,565,322.00	m ³	135,642
Water	12,380,479.83	m ³	97,845
Other fuels ¹¹	-		24,926
TOTAL			1,021,782

INFORMATION ABOUT THE COMPANY'S TRANSACTIONS IN 2014 RECORDED BY THE FEDERAL LAW "ON JOINT STOCK COMPANIES" AS THE LARGE ONES

For the reported year, there was only one transaction made being recognized according to the Federal Law "On Joint Stock Companies" as the large one, the conditions of which were as follow:

Type and subject of the transaction:

General Agreement no. 0162-100414-ПКЛ dated 26.06.2014 on opening of the revolving framework loan facility with the differentiated interest rates for financing the current activity, as well as to carry out the financial activity.

Parties and beneficiaries under the transaction:

The Lender: "Sberbank of Russia" Open Joint Stock Company;

The Borrower: Open Joint Stock Company "Power Machines – ZTL, LMZ, Electrosila, Energomachexport".

Amount of the transaction:

The loan facility limit amounts to 10,000,000,000 (ten billion 00/100) roubles, the interest rate for using the loan shall be within the interest rate: MosPrime 3M + 5.0 (five) per annum and other payments.

Amount of all the inter-related transactions, together with the previously made and existing General Agreements no. 0162-104013-ПКЛ dated 04.09.2013, no. 0162-105213-ПКЛ dated 25.11.2013, no. 0162-202513-ПКЛ dated 25.11.2013, no. 0162-202613-ПКЛ dated 25.11.2013 at the currency rate as of 31.12.2014 made 42,460,110,000.00 roubles, and also the interest, commissions and other charges.

Issuer's management body that has resolved to approve the transaction:

The Board of Directors of Power Machines.

INFORMATION ABOUT THE COMPANY'S TRANSACTIONS IN 2014 RECORDED BY THE FEDERAL LAW "ON JOINT STOCK COMPANIES" AS THE ONES OF INTEREST

No transactions that are of interest and would require approval from the Company's authorized management body were made in 2014.

¹¹ Includes gasoline, diesel fuel, black oil, oxygen, argon, acetylene.

GLOSSARY

Abbreviations	
ACS	Automatic Control System
APCS	Automated Process Control System
CAD	Computer-Aided Design
CCGT	Combined-cycle gas turbine
ChUZ MSCh	Private occupational health facility
CIS	Commonwealth of Independent States
DEI	Design and Engineering Information
DPP	Diesel Power Plant
ECM	Electronic Computing Machine
EMERCOM of Russia	Emergency Control Ministry of the Russian Federation
ERP	Enterprise Resource Planning
GTU	Gas Turbine Unit (power generation gas turbine)
HIF	Hazardous industrial facility
HPP	Hydraulic Power Plant
IFSR	International Financial Reporting Standards
IP	Intellectual Properties
IT	Information Technology
JV	Joint Venture
LTIFR	Lost Time Injury Frequency Rate
MBA	Master of Business Administration
MICEX	Moscow Interbank Currency Exchange
NII	Research institute
NPP	Nuclear Power Plant

Abbreviations	
OGK	Wholesale market generating companies
PPE	Personal Protective Equipment
PSPP	Pumped-Storage Power Plant
R&D	Research and development
RAS	Russian Academy of Sciences
RAS	Russian Accounting Standards
RES	Renewable Energy Sources
SanPiN	Sanitary regulations and standards
SAP	Systems, Applications and Products in data processing
SC	Software-Controlled
SDPP	State District Power Plant (in Russia – thermal power plant)
STG	Synchronous Traction Generator
TCP	Technical and Commercial Proposal
TGK	Territorial Generating Company
TPP	Thermal Power Plant
CHPP	Combined heat and power plant
VVER TOI	Standard, optimised computer-aided water-water power reactor
T3B, T3BA	Completely water-cooled turbo-generators
TA, TΦ, T3Φ, T3ΦA	Completely air-cooled turbo-generators
TBB	Hydrogen-and-water cooled turbo-generators

Units of measurement	
Gcal Gigacalorie	Unit of heat
Gcal/h Gigacalorie/hour	Unit of heat power
GW Gigawatt	Unit of power
Hz Hertz	Electrical frequency
kV Kilovolt	Unit of voltage
kW Kilowatt	Unit of power
kWh Kilowatt-hour	Unit of energy
MPa Megapascal	Unit of pressure
MVA Megavolt Ampere	Unit of apparent power
MW Megawatt	Unit of power

Editor's conventions in the report

Term	Convention
Open Joint Stock Company Power Machines – ZTL, LMZ, Electrosila, Energomachexport	OJSC Power Machines, Power Machines, Company
Leningradsky Metallichesky Zavod Manufacturing Site	LMZ
Electrosila Plant Manufacturing Site	Electrosila
Turbine Blades Plant Manufacturing Facility	ZTL
Turboatomgaz Manufacturing Facility	TAG
The first start-up facility of the power equipment plant of Leningradsky Metallichesky Zavod	ZEO
Open Joint Stock Company Kaluga Turbine Works	OJSC KTZ
Open Joint Stock Company EMAlliance	OJSC EMAlliance
Open Joint Stock Company Taganrog Boiler-Making Plant Krasny Kotelshchik	OJSC TKZ Krasny Kotelshchik
Limited Liability Company Power Machines – Toshiba. High-Voltage Transformers Limited Liability Company	LLC Power Machines – Toshiba. High-Voltage Transformers
Limited Liability Company Power Machines – Reostat Plant	LLC Power Machines – Reostat Plant
Limited Liability Company Siemens Gas Turbine Technologies	LLC Siemens Gas Turbine Technologies
Limited Liability Company PM-Development	LLC PM-Development
Open Joint Stock Company The Polzunov Research and Production Association for Investigation and Design of Power-Generating Equipment	OJSC NPO CKTI
Federal Securities Market Commission	FSMC of Russia
EBITDA	Earnings before Interest, Taxation, Depreciation, and Amortisation

Editor's conventions in the report

Term	Convention
Central Bank of the Russian Federation	Bank of Russia
Power Machines' Articles of Association	Articles of Association
Power Machines' Board of Directors	Board of Directors
Transactions between the related parties	Related party transactions
Regulation on the Procedure of Access to the Insider Information of Power Machines, approved by the Board of Directors on 26.02.2014 (MoM 263)	Insider Information Regulation
Federal Law on Joint-Stock Companies No. 208-ФЗ dd. 26.12.1995	Federal Law on Joint-Stock Companies
Regulation on Disclosure of Information by Issuers of Securities, approved by the Bank of Russia on 30.12.2014, Order no. 454-P	Information Disclosure Regulation

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