Open Joint Stock Company Power Machines and subsidiaries

Consolidated condensed interim financial statements
for the six months ended 30 June 2008
(unaudited)

OPEN JOINT STOCK COMPANY POWER MACHINES AND SUBSIDIARIES

TABLE OF CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report on review of the consolidated condensed interim financial statements set out on the page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated condensed interim financial statements of Open Joint Stock Company "Power Machines" and subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated condensed interim financial statements that present fairly the financial position of the Group at 30 June 2008, the results of its operations, cash flows and changes in equity for the six months then ended, in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting' ("IAS 34").

In preparing the consolidated condensed interim financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated condensed interim financial statements; and
- Preparing the consolidated condensed interim financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated condensed interim financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated condensed interim financial statements for the six months ended 30 June 2008 were approved for issue on 20 October 2008 by the Management Board.

On behalf of the Management Board:

Igor Y. Kostin	**Irina V. Romanova**
General Director	Chief Accountant

ZAO Deloitte & Touche CIS
Business Center "Mokhovaya"
4/7 Vozdvizhenka St., Bldg. 2
Moscow, 125009
Russia

Tel: +7 (495) 787 0600
Fax: +7 (495) 787 0601
www.deloitte.ru

REPORT ON REVIEW OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

To the Shareholders of Open Joint Stock Company "Power Machines":

We have reviewed the accompanying consolidated condensed interim balance sheet of Open Joint Stock Company "Power Machines" and its subsidiaries (the "Group") as of 30 June 2008 and the related consolidated condensed interim statements of income, changes in equity and cash flows for the six month then ended, and a summary of selected accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these consolidated condensed interim financial statements in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting' ("IAS 34"). Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

The accompanying comparative consolidated condensed statements of income, changes in equity and cash flows of the Group for the six months ended 30 June 2007 have not been neither audited, nor reviewed by us or other accountants.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial statements do not present fairly, in all material respects, the financial position of the Group as of 30 June 2008, and its financial performance and its cash flows for the six month then ended in accordance with IAS 34.

Deloitte & Touche

20 October 2008

OPEN JOINT STOCK COMPANY POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED CONDENSED INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)
(in thousands of US dollars unless otherwise stated)

	Note	Six months ended 30 June 2008	Six months ended 30 June 2007
Sales	3	575,298	379,202
Cost of sales		(450,530)	(306,287)
Gross profit		**124,768**	**72,915**
Distribution expenses		(27,110)	(30,301)
Administrative expenses		(67,248)	(51,943)
Other operating income		10,251	7,294
Other operating expenses		(15,739)	(1,981)
Profit/(loss) from operations		**24,922**	**(4,016)**
Financial income		5,929	391
Financial expenses		(12,313)	(19,679)
Income/(loss) from associates		302	(80)
Profit/(loss) before income tax		**18,840**	**(23,384)**
Income tax (expense)/benefit		(1,208)	7,336
Profit/(loss) for the period		**17,632**	**(16,048)**
Attributable to:			
Shareholders of the Company		17,652	(15,878)
Minority interest		(20)	(170)
Weighted average number of shares (millions of shares)		8,709	7,217
Basic earnings/(loss) per share (US dollars)		0.0020	(0.0022)

OPEN JOINT STOCK COMPANY POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED CONDENSED INTERIM BALANCE SHEET
AS OF 30 JUNE 2008 (UNAUDITED)
(in thousands of US dollars unless otherwise stated)

	Note	30 June 2008	31 December 2007
Assets			
Property, plant and equipment		350,726	299,628
Intangible assets		32,327	31,082
Goodwill	13	38,480	-
Investments in associates		5,572	5,211
Other investments		2,671	1,943
Deferred tax assets		3,926	-
Non-current receivables		38,667	34,127
Total non-current assets		**472,369**	**371,991**
Inventories	5	222,363	159,907
Trade and other receivables	4	1,239,311	770,695
Bank deposits		411	467
Current tax asset		18,322	19,155
Cash and cash equivalents		392,501	103,253
Total current assets		**1,872,908**	**1,053,477**
Total assets		**2,345,277**	**1,425,468**
Equity			
Issued capital		11,141	11,141
Additional paid-in capital		393,358	393,358
Foreign currency translation reserve		63,640	56,765
Accumulated deficit		(316,211)	(333,863)
Total equity attributable to Shareholders of the Company		**151,928**	**127,401**
Minority interest		25,505	1,238
Total equity		**177,433**	**128,639**
Liabilities			
Borrowings	7	39,401	52,390
Other liabilities		10,680	8,791
Total non-current liabilities		**50,081**	**61,181**
Borrowings	7	159,931	119,346
Trade and other payables	9	1,735,700	884,009
Provisions	10	222,132	232,293
Total current liabilities		**2,117,763**	**1,235,648**
Total equity and liabilities		**2,345,277**	**1,425,468**

OPEN JOINT STOCK COMPANY POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)
(in thousands of US dollars unless otherwise stated)

	Note	Six months ended 30 June 2008	Six months ended 30 June 2007
Net cash flows from/(used in) operating activities		**365,383**	**(14,106)**
Investing activities			
Additions to property, plant and equipment		(40,087)	(22,082)
Net cash flow from other investments		56	4,478
Acquisition of subsidiary net of cash acquired	13	(45,811)	-
Proceeds from disposal of property, plant and equipment		958	4,357
Proceeds from disposal of other assets		-	2,592
Interest received		5,929	1,850
Cash flows used in investing activities		**(78,955)**	**(8,805)**
Financing activities			
Proceeds from borrowings		223,640	381,155
Repayment of borrowings		(227,421)	(317,763)
Cash flows (used in)/from financing activities		**(3,781)**	**63,392**
Net increase in cash and cash equivalents		**289,248**	**40,656**
Effect of exchange rates on cash and cash equivalents		6,601	175
Cash and cash equivalents at beginning of the period		103,253	40,920
Cash and cash equivalents at end of the period		**392,501**	**81,576**

OPEN JOINT STOCK COMPANY POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)
(in thousands of US dollars unless otherwise stated)

	Note	Ordinary shares	Additional paid-in capital	Foreign currency translation reserve	Accumulated deficit	Total attributable to shareholders of the Company	Minority interest	Total equity
Balance at 1 January 2007		**10,563**	**125,280**	**45,926**	**(29,756)**	**152,013**	**1,129**	**153,142**
Loss for the period		-	-	-	(15,878)	(15,878)	(170)	(16,048)
Currency translation differences		-	-	2,350	-	2,350	(33)	2,317
Total recognised income and expense						(13,528)	(203)	(13,731)
Balance at 30 June 2007		**10,563**	**125,280**	**48,276**	**(45,634)**	**138,485**	**926**	**139,411**
Balance at 1 January 2008		**11,141**	**393,358**	**56,765**	**(333,863)**	**127,401**	**1,238**	**128,639**
Profit/(loss) for the period		-	-	-	17,652	17,652	(20)	17,632
Currency translation differences		-	-	6,875	-	6,875	-	6,875
Total recognised income and expense						24,527	(20)	24,507
Minority interest in subsidiary acquired during the period	13	-	-	-	-	-	24,287	24,287
Balance at 30 June 2008		**11,141**	**393,358**	**63,640**	**(316,211)**	**151,928**	**25,505**	**177,433**

(in thousands of US dollars unless otherwise stated)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These consolidated condensed interim financial statements of Open Joint Stock Company "Power Machines" (the "Company") and subsidiaries ("the Group") have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), and in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting'.

The accounting policies, presentation and methods of computation applied by the Group in these consolidated condensed interim financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2007.

2. SEASONALITY

There are no material seasonal effects in the business activities of the Group.

3. SALES

Sales by delivery destination were as follows:

	Six months ended 30 June 2008	Six months ended 30 June 2007
Russian Federation	426,139	188,201
China and Central Asia	82,557	62,964
Other CIS countries	32,618	33,439
South-East Asia	9,260	30,452
Central and South America	9,862	17,132
Europe	7,178	34,298
Other	7,684	12,716
	575,298	379,202

4. TRADE AND OTHER RECEIVABLES

	30 June 2008	31 December 2007
Trade receivables	152,722	92,956
Less provision for trade receivables	(3,130)	(5,821)
	149,592	**87,135**
Costs and estimated profits less recognised losses in excess of progress billings on uncompleted construction contracts	631,728	367,060
Prepayments	343,689	249,931
VAT receivable	75,536	47,863
Deferred expenses	20,297	9,192
Taxes and social security charges	3,703	-
Other	21,153	15,872
Less provision for other receivables	(6,387)	(6,358)
	1,239,311	**770,695**

(in thousands of US dollars unless otherwise stated)

As discussed in note 12 (below), as a result of recent economic turmoil in capital and credit markets globally, and the consequential economic uncertainties existing at 30 June 2008, there exists the potential that assets may be not be recovered at their carrying amount in the ordinary course of business. The recoverability of the trade accounts receivable depends to a large extent on the efficacy of the fiscal measures and other measures and other actions, beyond the Group's control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the Group's trade accounts receivable is determined based on conditions prevailing at 30 June 2008.

5. INVENTORIES

	30 June 2008	31 December 2007
Raw materials and consumables	95,150	57,909
Work in progress	81,934	51,944
Finished goods and goods for resale	75,015	58,114
Other	7,760	7,858
	259,859	175,825
Less provision for obsolete inventories	(37,496)	(15,918)
	222,363	**159,907**

6. RELATED PARTY BALANCES AND TRANSACTIONS

	30 June 2008	31 December 2007
Amounts receivable		
Prepayments	93,107	77,547
Trade and other receivables	12,290	19,240
	105,397	**96,787**
Amounts payable		
Advances from customers	21,044	24,433
Trade and other payables	7,574	5,654
	28,618	**30,087**

	Six months ended 30 June 2008	Six months ended 30 June 2007
Sales		
Sales of goods	1,961	113,615
Services provided	1,575	1,253
	3,536	**114,868**
Purchases		
Purchases of goods	44,370	7,253
Purchases of services	4,759	14,254
	49,129	**21,507**

(in thousands of US dollars unless otherwise stated)

As of 30 June 2008 the largest immediate shareholders of the Group are Highstat Limited (30%), King Rail Trading Limited (16.5%), Ashington Trading Limited (16.5%) and Siemens Aktiengesellschaft (25%). The ultimate controlling shareholder of Highstat Limited, King Rail Trading Limited, Ashington Trading Limited and the Group is Mr. Alexey A. Mordashov.

As a result of changes in Group's immediate shareholding structure in November 2007, transactions with RAO "UES of Russia" are no longer included into the Group's related party transactions.

7. BORROWINGS

	30 June 2008	31 December 2007
Current		
Bank loans	158,644	114,657
Loan from the Ministry of Finance	-	1,274
Other	1,287	3,415
	159,931	**119,346**
Non-current		
Bank loans	35,091	44,608
Loan from the Ministry of Finance	-	5,259
Other	4,310	2,523
	39,401	**52,390**

8. PLEDGES PROVIDED BY THE GROUP

	30 June 2008	31 December 2007
Inventories	192,000	209,401
Property, plant and equipment	77,736	72,278
Revenue from planned supply of equipment in the future	70,000	70,000
	339,736	**351,679**

9. TRADE AND OTHER PAYABLES

	30 June 2008	31 December 2007
Advances from customers	1,520,809	753,198
Trade accounts payable	115,839	79,294
Other taxes payable	46,742	6,410
Employee related liabilities	30,146	18,100
Progress billings in excess of costs and estimated profits less recognised losses on uncompleted construction contracts	7,822	13,109
Other	14,342	13,898
	1,735,700	**884,009**

(in thousands of US dollars unless otherwise stated)

10. PROVISIONS

	Provisions for onerous contracts	Provisions for warranties	Total
Balance at 1 January 2007	88,110	1,803	89,913
Provisions made during the period	3,999	1,844	5,843
Provisions used during the period	-	(1,142)	(1,142)
Translation differences	4,125	22	4,147
Balance at 30 June 2007	**96,234**	**2,527**	**98,761**
Balance at 1 January 2008	228,672	3,621	232,293
Provisions made during the period	-	2,158	2,158
Acquired in business combination (Note 13)	5,160	-	5,160
Provisions used during the period	(26,638)	(1,487)	(28,125)
Translation differences	10,435	211	10,646
Balance at 30 June 2008	**217,629**	**4,503**	**222,132**

11. CONSTRUCTION CONTRACTS

	Six months ended 30 June 2008	Six months ended 30 June 2007
Contract revenue	441,267	289,069
Contract cost	(314,049)	(230,460)
Decrease/(increase) in provision for onerous contracts (Note 10)	26,638	(3,999)
Gross profit	**153,856**	**54,610**

12. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of 30 June 2008, the Group had capital commitments of USD 3,300 thousand (31 December 2007: USD 4,263 thousand).

Contingencies – There were no significant changes in the Group's contingent liabilities for the six months ended 30 June 2008.

Recent volatility in global and Russian financial markets – In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilisation measures that may be put into place by the Russian Government, there exists as at the date these financial statements are authorised for issue economic uncertainties surrounding the continual availability, and cost, of credit both for the Group and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may be not be recovered at their carrying amount in the ordinary course of business, and a corresponding impact on the Group's profitability.

(in thousands of US dollars unless otherwise stated)

Working capital deficiencies – At 30 June 2008, the Group's current liabilities exceeded its current assets by USD 244,855 thousand (31 December 2007: USD 182,171 thousand). Management efforts to improve Group's liquidity position concentrate primarily on increasing operating cash flows through sales increases, improved margins, contract cost reductions, and refinancing of the existing liabilities. Management believes that the Group's available borrowing facilities and operating cash flows will be sufficient to fund its operations for the next year. At this stage management is unable to reliably estimate the effects of recent volatility in global and Russian financial markets on its efforts to improve the Group's liquidity position.

13. BUSINESS COMBINATION

On 20 March 2008 the Group purchased 260,178 ordinary shares (or 50.32% of total voting shares and 38.5% of total issued shares) of OJSC "Kaluzhsky turbine plant" ("KTZ"), producer of steam and gas turbines of small and medium capacity and located in Kaluga, the Russian Federation, from its immediate shareholder Highstat Limited for cash consideration of USD 53,710 thousand. Highstat Limited acquired these shares from third parties in March 2008 for the same amount.

At 30 June 2008 management has not yet completed the estimation of fair values of the acquired assets and liabilities and, accordingly, the initial accounting for the acquisition of KTZ was determined provisionally.

A summary of assets and liabilities of KTZ on the date of acquisition is presented below:

Property, plant and equipment	26,740
Intangible assets	174
Other investments	775
Deferred tax assets	2,308
Inventories	59,476
Trade and other receivable	105,897
Cash and cash equivalents	7,899
Total assets	**203,269**
Borrowings	20,154
Trade and other payables	138,438
Provisions	5,160
Total liabilities	**163,752**
Net assets at the date of acquisition	**39,517**
Less: Minority interest	(24,287)
Group's share of net assets acquired	**15,230**
Add: Goodwill arising on acquisition	38,480
Total cost of acquisition	**53,710**
Less: Cash and cash equivalents acquired	(7,899)
Net cash outflow on acquisition	**45,811**

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire KTZ. In addition, the consideration paid effectively included amounts in relation to the benefits of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

Had this business combination been effected on 1 January 2008, the revenue of the Group for the period would have been USD 606,558 thousand.

The net loss of KTZ since the acquisition date included in the Group's profit for the period, as well as the loss from 1 January 2008 to the date of acquisition are not significant to the Group's profit for the period.

14. SUBSEQUENT EVENTS

In July 2008, the Group acquired additional 28,492 ordinary shares (or 5.51% of total voting shares and 4.22% of total issued shares) of KTZ in the course of the obligatory offer made in accordance with Russian corporate legislation.

In September 2008, as a result of change in immediate shareholding structure Highstat Limited obtained control over 65% of the Company's issued shares.