

OAQ Power Machines and Subsidiaries

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

OAO POWER MACHINES AND SUBSIDIARIES

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Independent Auditors' Report

To the Shareholders of OAO Power Machines

Introduction

We have reviewed the accompanying consolidated condensed interim statement of financial position of OAO Power Machines (the "Company") and its subsidiaries (the "Group") as at June 30, 2010 and the related consolidated condensed interim statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and a summary of selected explanatory notes (the consolidated condensed interim financial information). Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated condensed interim financial information as at June 30, 2010 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Other Matter

Without qualifying our conclusion we draw attention to the fact that the consolidated condensed interim statement of financial position as at December 31, 2009 is based on the Group's consolidated financial statements as at and for the year ended December 31, 2009 which were audited by other auditors whose report dated March 26, 2010 expressed an unmodified opinion on those statements, and to the fact that the comparative consolidated condensed interim statements of income, comprehensive income, changes in equity and cash flows for the six-month period ended June 30, 2009 are based on the consolidated condensed interim financial statements as at and for the six-month period ended June 30, 2009 which were reviewed by other auditors whose report dated September 8, 2009 expressed an unmodified conclusion on those statements.

ZAO KPMG

ZAO KPMG
16 August 2010

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED CONDENSED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2010

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

	Note	Six months ended June 30, 2010 (Unaudited)	Six months ended June 30, 2009 (Unaudited)
Revenue	2	710 795	721 397
Cost of sales		<u>(498 424)</u>	<u>(554 921)</u>
Gross profit		212 371	166 476
Distribution expenses		(34 185)	(30 292)
Administrative expenses		(45 204)	(38 117)
Other taxes and contributions		(4 702)	(5 251)
Other income		5 890	3 692
Other expenses		<u>(14 992)</u>	<u>(26 329)</u>
Profit from operations		119 178	70 179
Share of associates' losses		-	(1 771)
Profit before financing and taxation		119 178	68 408
Financial income		7 208	7 305
Financial expenses		(9 052)	(8 073)
Net foreign exchange losses		<u>(2 551)</u>	<u>(1 460)</u>
Profit before income tax		114 783	66 180
Income tax expense		(16 968)	(13 080)
Profit for the period		<u>97 815</u>	<u>53 100</u>
Attributable to:			
shareholders of OAO Power Machines		93 427	49 324
non-controlling interests		4 388	3 776
		<u>97 815</u>	<u>53 100</u>
Weighted average number of shares outstanding during the period		<u>8 708 938 708</u>	<u>8 708 938 708</u>
Basic and diluted earnings per share (US dollars)		<u>0,0112</u>	<u>0,0061</u>

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



Igor V. Kostin
General Director



Vadim K. Chechnev
Chef Financial Officer

The consolidated condensed interim income statement is to be read in conjunction with the notes to, and forming part of, the consolidated condensed interim financial statements set out on pages 9 to 16

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2010

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

	Six months ended June 30, 2010 (Unaudited)	Six months ended June 30, 2009 (Unaudited)
Profit for the period	97 815	53 100
Other comprehensive income		
Currency translation differences	(17 145)	(9 579)
Total comprehensive income for the period, net of tax effect	80 670	43 521
Attributable to:		
shareholders of OAO Power Machines	78 354	43 155
non-controlling interests	2 316	366
	80 670	43 521

The consolidated condensed interim statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated condensed interim financial statements set out on pages 9 to 16

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2010

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

	Note	June 30, 2010 (Unaudited)	December 31, 2009
Assets			
Property, plant and equipment		428 968	423 560
Goodwill		3 604	3 717
Other intangible assets		35 191	33 723
Deferred tax assets		34 932	32 748
Trade accounts receivable		51 460	70 592
Other assets		1 645	2 319
Total non-current assets		555 800	566 659
Inventories	3	201 506	217 034
Amounts due from customers under construction contracts	5	899 700	908 645
Trade accounts receivable		299 654	267 313
Advances paid to suppliers		253 381	246 499
Other current assets		35 137	28 450
VAT recoverable		78 620	67 731
Short-term bank deposit		7 220	5 088
Cash and cash equivalents		230 181	323 689
Total current assets		2 005 399	2 064 449
Total assets		2 561 199	2 631 108
Equity			
Share capital		11 141	11 141
Additional paid-in capital		400 025	399 877
Foreign currency translation reserve		13 985	29 058
Accumulated profit (deficit)		31 322	(62 105)
Total equity attributable to the Company's shareholders		456 473	377 971
Non-controlling interests		52 296	50 128
Total equity		508 769	428 099
Liabilities			
Debt finance	4	14 375	26 041
Deferred tax liabilities		11 190	10 764
Other liabilities		6 451	1 609
Total non-current liabilities		32 016	38 414
Debt finance	4	44 898	44 641
Trade accounts payable		108 908	142 787
Amounts due to customers under construction contracts	5	24 570	24 582
Advances received from customers		1 645 621	1 730 901
Other taxes and social security payable		8 681	15 788
Other liabilities		64 415	62 513
Provisions for contingencies	7	123 321	143 383
Total current liabilities		2 020 414	2 164 595
Total liabilities		2 052 430	2 203 009
Total equity and liabilities		2 561 199	2 631 108

The consolidated condensed interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated condensed interim financial statements set out on pages 9 to 16

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2010

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

	Six months ended June 30, 2010 (Unaudited)	Six months ended June 30, 2009 (Unaudited)
Cash flows from operating activities		
Profit before financing and taxation	119 178	68 408
Adjustments for:		
Depreciation and amortization	28 047	22 002
Other	3 092	31 338
Operating profit before changes in working capital	150 317	121 748
Changes in operating assets and liabilities	(153 538)	(111 540)
Cash flows (used in)/from operations before income tax and interest paid	(3 221)	10 208
Interest paid	(1 935)	(3 369)
Income tax paid	(21 506)	(25 534)
Cash flows used in operating activities	(26 662)	(18 695)
Investing activities:		
Additions to property, plant and equipment and intangible assets	(49 545)	(52 737)
Net cash flow from other investments	(2 400)	(844)
Acquisition of non-controlling interests	-	(4 500)
Proceeds from disposal of property, plant and equipment and other assets	306	-
Interest received	2 881	5 152
Cash flows used in investing activities	(48 758)	(52 929)
Financing activities:		
Proceeds from borrowings	19 056	121 242
Repayment of borrowings	(29 252)	(139 081)
Cash flows used in financing activities	(10 196)	(17 839)
Net decrease in cash and cash equivalents	(85 616)	(89 463)
Effect of exchange rates on cash and cash equivalents	(7 892)	(28 526)
Cash and cash equivalents at the 1st of January	323 689	328 281
Cash and cash equivalents at the 30th of June	230 181	210 292

The consolidated condensed interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated condensed interim financial statements set out on pages 9 to 16

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2010

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

	Share capital	Additional paid-in capital	currency translation reserve	Accumulated profit	the Company's shareholders	Non- controlling interests	Total equity
Balance at January 1, 2009	11 141	393 358	27 167	(248 089)	183 577	55 550	239 127
Profit for the period (unaudited)	-	-	-	49 324	49 324	3 776	53 100
Foreign currency translation differences (unaudited)	-	-	(6 169)	-	(6 169)	(3 410)	(9 579)
Total comprehensive income for the period (unaudited)	-	-	-	-	43 155	366	43 521
Buy out of non-controlling interests (unaudited)	-	6 519	-	-	6 519	(11 019)	(4 500)
Balance at June 30, 2009 (unaudited)	11 141	399 877	20 998	(198 765)	233 251	44 897	278 148
Balance at January 1, 2010	11 141	399 877	29 058	(62 105)	377 971	50 128	428 099
Profit for the period (unaudited)	-	-	-	93 427	93 427	4 388	97 815
Foreign currency translation differences (unaudited)	-	-	(15 073)	-	(15 073)	(2 072)	(17 145)
Total comprehensive income for the period (unaudited)	-	-	-	-	78 354	2 316	80 670
Dilution of non-controlling interest (unaudited)	-	148	-	-	148	(148)	-
Balance at June 30, 2010 (unaudited)	11 141	400 025	13 985	31 322	456 473	52 296	508 769

The consolidated condensed interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated condensed interim financial statements set out on pages 9 to 16

OAo POWER MACHINES AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2010 (UNAUDITED) *(Tabular amounts in thousands of US dollars unless otherwise stated)*

1. ORGANISATION AND OPERATIONS

These consolidated interim financial statements of OAO Power Machines (the “Company”) and subsidiaries (the “Group”) have been prepared in accordance with International Financial Reporting Standards (‘IFRS’), IAS 34 “Interim Financial Reporting”, as issued by the International Accounting Standards Board. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended December 31, 2009.

The accounting policies 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 December 31, 2009, except that the Group has adopted those new/revised standards mandatory for financial annual periods beginning on January 1, 2010. The adoption of the pronouncements did not have a significant impact on the Group’s consolidated condensed interim financial statements.

2. ESTIMATES

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

Except as described below, in preparing these consolidated condensed interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2009.

During the six months ended 30 June 2009 management reassessed its estimates in respect of:

- previously unrecognised deferred tax assets related mainly to provisions for onerous contracts and inventory-related tax differences (see note 11);
- provisions for litigation (see note 9).

3. OPERATING SEGMENT

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

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

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

OAO POWER MACHINES AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2010 (UNAUDITED) *(Tabular amounts in thousands of US dollars unless otherwise stated)*

Performance of the segment is measured based on profit after income tax, as included in the internal management reports that are reviewed by the Group's Management Board, which is consistent with the profit after tax reported in the Group's consolidated condensed interim income statement for the six months ended June 30, 2010. Segment assets and liabilities are not reviewed by the Group's Management Board for the segment's performance measurement purposes.

4. REVENUE

	Six months ended June 30, 2010	Six months ended June 30, 2009
Income from:		
Construction contract revenue	489 353	558 516
Sales of goods	183 261	127 423
Rendering services	24 326	25 301
Other	13 856	10 157
	710 795	721 397
	Six months ended June 30, 2010	Six months ended June 30, 2009
Russia	571 243	574 121
Europe	44 135	63 818
India	6 695	39 456
Central and South America	54 015	29 148
China and Central Asia	21 931	8 664
South-East Asia	3 228	1 892
Other	9 548	4 298
	710 795	721 397

5. INVENTORIES

	June 30, 2010	December 31, 2009
Raw materials and consumables	88 947	79 897
Work in progress	69 198	61 584
Finished goods and goods for resale	113 399	114 611
Supplies	8 055	23 033
	279 599	279 125
Provision for obsolete inventories	(78 093)	(62 091)
	201 506	217 034

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

OAO POWER MACHINES AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2010 (UNAUDITED) *(Tabular amounts in thousands of US dollars unless otherwise stated)*

The movement in the inventory obsolescence provision was:

	June 30, 2010	June 30, 2009
Opening balance	(62 091)	(33 812)
Change in provision recognized in income statement	(20 959)	(12 227)
Amounts written off against provisions	2 839	5 214
Foreign exchange difference	2 118	1 665
Closing balance	(78 093)	(39 160)

6. DEBT FINANCE

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

	June 30, 2010	December 31, 2009
Non-current		
Bank loans	14 275	25 478
Finance lease liability	100	563
	14 375	26 041
Current		
Bank loans	43 860	43 174
Finance lease liability	1 038	1 467
	44 898	44 641

The Group issued US\$ 19.1 million borrowings denominated in Russian rubles. These borrowings bear fixed interest rates of between 7.1% and 11.5% per annum.

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

	June 30, 2010	December 31, 2009
Revenue from planned supply of equipment in the future	25 522	38 182
Property, plant and equipment	41 368	45 566
	66 890	83 748

OAO POWER MACHINES AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2010 (UNAUDITED)

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

7. CONSTRUCTION CONTRACTS

Contracts in progress at the balance sheet date:

	June 30, 2010	December 31, 2009
Construction costs incurred plus recognized profits and less recognized losses	2 486 810	2 648 840
Less: progress billings	(1 611 680)	(1 764 777)
	875 130	884 063

Recognised and included in the financial statements as amounts due:

	June 30, 2010	December 31, 2009
From customers under construction contracts	899 700	908 645
To customers under construction contracts	(24 570)	(24 582)
	875 130	884 063

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

8. RELATED PARTY BALANCES AND TRANSACTIONS

	June 30, 2010	December 31, 2009
Amounts receivable		
Advances paid to suppliers	9 315	19 153
Trade and other receivables	1 172	210
	10 487	19 363
Amounts payable		
Advances received from customers	737	859
Trade and other payables	22 691	26 033
	23 428	26 892

OAO POWER MACHINES AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2010 (UNAUDITED) (*Tabular amounts in thousands of US dollars unless otherwise stated*)

	Six months ended June 30, 2010	Six months ended June 30, 2009
Revenue		
Sales of goods	469	622
Services provided	49	3
	518	625
Purchases		
Purchases of goods	23 045	137 324
Purchases of services	30 276	11 772
	53 321	149 096

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

9. PROVISIONS FOR CONTINGENCIES

	Provisions for warranties	Provisions for onerous contracts	Total
Balance at January 1, 2009	5 199	176 826	182 025
Provisions made during the period	838	24 083	24 921
Provisions used during the period	-	(18 034)	(18 034)
Provision released during the period	-	(757)	(757)
Translation differences	(272)	(10 763)	(11 035)
Balance at June 30, 2009	5 765	171 355	177 120
Balance at January 1, 2010	7 316	136 067	143 383
Provisions made during the period	1 129	7 227	8 356
Provisions used during the period	(318)	(22 218)	(22 536)
Provision released during the period	-	(2 080)	(2 080)
Translation differences	(258)	(3 544)	(3 802)
Balance at June 30, 2010	7 869	115 452	123 321

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

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

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

OA0 POWER MACHINES AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2010 (UNAUDITED) *(Tabular amounts in thousands of US dollars unless otherwise stated)*

Provision for warranties

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

Provisions for onerous contracts

Provisions for onerous contracts are recognised whenever contract's total expected revenues are lower than its total expected costs.

Provision for litigation

The Group has a number of claims including disputes for contract delays or additional work which have arisen in the ordinary course of business. Contract related disputes are common to the business of the Group, particularly for large, long-term contracts. Based on the facts and circumstances existing on the date of these consolidated condensed interim financial statements, as well as historical experience with such claims and litigations, management estimates that possible losses associated with unresolved contract related disputes at June 30, 2010, may amount up to US\$ 43.5 million (2009: US\$ 40.1 million). Such contingent liabilities have not been provided as at June 30, 2010 because management believes that it is possible, but not probable, that an outflow of economic resources will be required to settle the obligation.

10. COMMITMENTS AND CONTINGENCIES

Long-term purchase contracts

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

Capital commitments

At the balance sheet date, the Group was committed to capital expenditure (property, plant and equipment) of approximately US\$ 88.9 million (2009: US\$ 47.6 million).

Social commitments

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

Insurance

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

OA0 POWER MACHINES AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2010 (UNAUDITED) *(Tabular amounts in thousands of US dollars unless otherwise stated)*

Russian Federation tax and regulatory environment

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

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

With regards to matters where practice concerning payment of taxes is unclear, management estimated the possible tax exposure at June 30, 2010 to be approximately US\$ 1.8 million (2009: US\$ 1.9 million).

Environmental liabilities

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

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

Working capital deficiency

At June 30, 2010 the Group's current liabilities exceeded its current assets by US\$ 15.0 million (2009: US\$ 100.1 million).

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. Furthermore, the Group's cash flows are typically stronger in the second half of the year and the Group expects sufficient operating cash inflow for the year ending December 31, 2010. Management believes that the Group's available borrowing facilities and operating cash flows will be sufficient to fund its operations for the next year.

OA0 POWER MACHINES AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2010 (UNAUDITED)

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

11. OTHER ITEMS

Dilution of non-controlling interest

In July 2009, one of the Group's subsidiary OJSC "Kaluzhsky turbine plant" ("KTZ") issued 160 368 ordinary shares with par value of RUB 1 to the Company by means of a closed subscription. The Company paid the first tranche of RUB 546.7 million in August 2009 (US\$ 17.6 million at the exchange rate effective at the transaction date) of the total amount due under the share purchase agreement of RUB 780.9 million. According to share purchase agreement, the right of ownership on shares will pass to the Company after the final payment of RUB 234.3 million.

The Company completed the final payment in February 2010. The total amount of ordinary shares of KTZ owned by the Company after final payment is 469,342 ordinary shares (or 69.29% of total voting shares and 56.18% of total issued shares) and 70,966 preferred shares (or 8.5% of total issued shares). As a result, the Group recognized a decrease in net assets attributable to non-controlling interests.

Deferred tax assets

During the six months ended 30 June, 2010 management reassessed its estimates in respect of previously unrecognised deferred tax assets mainly related to provisions for onerous contracts and inventory-related tax differences. As a result, the Group recognised the deferred tax assets in the amount of US\$ 17.0 million.

12. EVENTS AFTER THE REPORTING DATE

The Group is not aware of any material events subsequent to the reporting date which may impact or require disclosure in these consolidated condensed interim financial statements as at and for six months ended June 30, 2010.