Open Joint Stock Company
Power Machines
and subsidiaries

Consolidated Financial Statements
For the Year Ended 31 December 2007

OPEN JOINT STOCK COMPANY POWER MACHINES AND SUBSIDIARIES

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company "Power Machines" and subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2007, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated 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 financial statements; and
- Preparing the consolidated 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 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 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 financial statements for the year ended 31 December 2007 were approved for issue on 22 May 2008 by the Management Board.

On behalf of the Management Board:

Igor Y. Kostin
General Director

Irina V. Romanova
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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Power Machines" and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Basis for qualified opinion

As discussed in Note 2, the amount reported as cost of sales for the year ended 31 December 2006 included a provision of USD 6,894 thousand with respect to a construction contract, which was suspended in 2005 because the customer was not able to obtain certain government approvals required to finance the construction. Management did not make an estimate of the net realizable value of the amounts recoverable under this contract as of 31 December 2005. The information needed to quantify the accounting effects of the contract suspension in 2005 on the consolidated financial position, results of operations and cash flows of the Group as of and for the year ended 31 December 2006 as well as on opening Shareholders' equity as of 1 January 2006 is not reasonably determinable from the accounts and records.

As discussed in Note 2, during the year ended 31 December 2006, the Group recorded a loss on a construction contract in the amount of USD 7,480 thousand. This loss related to the year ended 31 December 2005. International Financial Reporting Standards require prior period errors to be corrected by retrospective restatement. Had the Group appropriately accounted for this correction of an error, cost of sales would have decreased by USD 7,480 thousand, loss before tax, income tax benefit and net loss for the year ended 31 December 2006 would have decreased by USD 7,480 thousand, USD 1,795 thousand and USD 5,685 thousand, respectively, and retained earnings as of 1 January 2006 would have decreased by USD 5,685 thousand.

As discussed in Note 2, during the year ended 31 December 2006, the Group identified an error in the calculation of the deferred tax liability as of 31 December 2005. The Group corrected this error by recording an additional income tax expense of USD 3,112 thousand in the year ended 31 December 2006. International Financial Reporting Standards require prior period errors to be corrected by retrospective restatement. Had the Group appropriately accounted for this correction of an error, the income tax benefit for the year ended 31 December 2006 would have increased by USD 3,112 thousand and retained earnings as of 1 January 2006 would have increased by USD 3,112 thousand.

The Group has not disclosed the name of its ultimate controlling party as at 31 December 2006, which is required by IAS 24 *Related Party Disclosures*.

Qualified opinion

In our opinion, except for the effects on the corresponding figures for 2006 of the adjustments related to the matters described under "Basis for qualified opinion" which affect consolidated results of operations for the year ended 31 December 2006 and opening Shareholders' equity as of 1 January 2006, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2007, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of a matter

Without further qualifying our opinion, we draw attention to the following:

- Note 30 (vii) to the accompanying consolidated financial statements which describes that as of 31 December 2007 the Group's current liabilities exceeded its current assets by USD 182,171 thousand; and
- Note 2 which describes that corresponding figures for 2006 have been restated to reflect reclassifications as discussed therein between current trade and other receivables and current trade and other payables.

Deloitte & Touche

22 May 2008
St. Petersburg, Russia

OPEN JOINT STOCK COMPANY POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(In thousands of US dollars unless otherwise stated)

	Note	2007	2006
Revenue	4	770,048	579,072
Cost of sales		(789,245)	(583,443)
Gross loss		**(19,197)**	**(4,371)**
Distribution expenses	5	(74,045)	(54,558)
Administrative expenses	6	(131,925)	(104,940)
Other operating income	7	11,352	6,774
Other operating expenses	7	(20,969)	(1,611)
Loss from operations		**(234,784)**	**(158,706)**
Financial income	9	1,633	26,580
Financial expenses	9	(42,425)	(32,659)
Income from associates		209	354
Loss before tax		**(275,367)**	**(164,431)**
Income tax (expense)/ benefit	10	(28,713)	32,274
Net loss for the year		**(304,080)**	**(132,157)**
Attributable to:			
Shareholders of the Company		(304,107)	(132,211)
Minority interest		27	54
		(304,080)	(132,157)
Basic loss per share	25	USD (0.0388)	USD (0.0183)

OPEN JOINT STOCK COMPANY POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2007
(In thousands of US dollars unless otherwise stated)

	Note	2007	2006 (restated, see Note 2)
Assets			
Property, plant and equipment	12	299,628	244,540
Intangible assets	13	31,082	26,185
Investments in associates		5,211	4,645
Other investments		1,943	6,000
Deferred tax assets	21	-	25,207
Non-current trade and other receivables	14	34,127	28,605
Total non-current assets		**371,991**	**335,182**
Inventories	15	159,907	125,231
Trade and other receivables	16	770,695	675,632
Other investments		467	1,402
Current tax asset		19,155	5,408
Cash and cash equivalents	17	103,253	40,920
Total current assets		**1,053,477**	**848,593**
Total assets		**1,425,468**	**1,183,775**
Equity			
Issued capital	18	11,141	10,563
Additional paid-in capital	18	393,358	125,280
Foreign currency translation reserve	18	56,765	45,926
Accumulated deficit	18	(333,863)	(29,756)
Total equity attributable to shareholders of the Company		**127,401**	**152,013**
Minority interest		1,238	1,129
Total equity		**128,639**	**153,142**
Liabilities			
Borrowings	19	52,390	57,216
Other liabilities	24	8,791	23,781
Total non-current liabilities		**61,181**	**80,997**
Borrowings	19	119,346	246,306
Trade and other payables	22	884,009	613,417
Provisions	23	232,293	89,913
Total current liabilities		**1,235,648**	**949,636**
Total liabilities		**1,296,829**	**1,030,633**
Total equity and liabilities		**1,425,468**	**1,183,775**

OPEN JOINT STOCK COMPANY POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007
(In thousands of US dollars unless otherwise stated)

	2007	2006
Cash flows from operating activities		
Net loss for the year	(304,080)	(132,157)
Adjustments for:		
Depreciation and amortization	37,597	36,068
Gain on disposal of other assets	(4,679)	(1,156)
Change in provision for trade and other receivable	10,278	1,579
Change in provision for obsolete inventory	10,548	(12,608)
Change in other provisions	130,367	71,508
Amortisation of government grant	(3,404)	(3,813)
Income from associates	(209)	(354)
Interest income	(1,216)	(3,998)
Interest expense	22,709	22,544
Income tax expense/(benefit)	28,713	(32,274)
Net foreign exchange loss/(gain)	12,326	(7,691)
Operating loss before changes in working capital	**(61,050)**	**(62,352)**
Increase in inventories	(35,086)	(11,748)
(Increase)/decrease in trade and other receivables	(85,448)	96,082
Increase/(decrease) in trade and other payables	223,552	(31,227)
Cash flows from/(used in) operations before income tax and interest paid	**41,968**	**(9,245)**
Interest paid	(23,644)	(22,974)
Income tax paid	(15,536)	(7,812)
Cash flows generated by/(used in) operating activities	**2,788**	**(40,031)**
Cash flows from investing activities		
Proceeds from disposal of other assets	633	7,784
Interest received	966	495
Acquisition of property, plant and equipment and intangible assets	(73,838)	(23,157)
Proceeds from sales of investments	7,455	1,306
Cash flows used in investing activities	**(64,784)**	**(13,572)**
Financing activities		
Proceeds from issuance of ordinary shares	268,656	-
Proceeds from borrowings	760,224	582,414
Repayments of borrowings	(905,188)	(523,865)
Cash flows generated by financing activities	**123,692**	**58,549**
Net increase in cash and cash equivalents	61,696	4,946
Cash and cash equivalents at the beginning of the year	40,920	34,483
Effect of exchange rate fluctuations	637	1,491
Cash and cash equivalents at the end of the year	**103,253**	**40,920**

OPEN JOINT STOCK COMPANY POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007
(In thousands of US dollars unless otherwise stated)

	Ordinary shares	Additional paid-in capital	Foreign currency translation reserve	Retained earnings/ (Accumulated deficit)	Total attributable to shareholders of the Company	Minority interest	Total equity
Balance at 31 December 2005	**10,563**	**125,280**	**25,893**	**102,455**	**264,191**	**985**	**265,176**
Net loss	-	-	-	(132,211)	(132,211)	54	(132,157)
Currency translation differences	-	-	20,033	-	20,033	90	20,123
Balance at 31 December 2006	**10,563**	**125,280**	**45,926**	**(29,756)**	**152,013**	**1,129**	**153,142**
Issuance of ordinary shares	578	268,078	-	-	268,656	-	268,656
Net loss	-	-	-	(304,107)	(304,107)	27	(304,080)
Currency translation differences	-	-	10,839	-	10,839	82	10,921
Balance at 31 December 2007	**11,141**	**393,358**	**56,765**	**(333,863)**	**127,401**	**1,238**	**128,639**

1. BACKGROUND

Organisation and operations

The consolidated financial statements of the Open Joint Stock Company “Power Machines” comprise OJSC “Power Machines” (the “Company”) and its subsidiaries (the “Group”). The Company is an open joint stock (public) company as defined in the Civil Code of the Russian Federation. The Company is domiciled in the Russian Federation. The registered office of the Company is located at 3 Lit. A, Vatutina str., St.Petersburg, Russian Federation.

The Company was established as a state-owned enterprise in 1966. It was incorporated as a closed joint stock company on 21 June 1991, as part of the Russian Federation privatisation program and as an open joint stock company on 28 June 2002. The principal activity of the Group is focused on power and automation technologies which includes the manufacture of turbines, generators and other energy-generating equipment at plants located in St. Petersburg, Russia. The plants, Leningradskiy Metalicheskiy Zavod, Electrosila and Zavod Turbinich Lopatok are branches of the Company. The products are sold in the Russian Federation and abroad. The Group participates in international and national tenders for the supply of energy-generating equipment, produces equipment and further places orders for production of the equipment with other subcontractors.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for certain items of property, plant and equipment which were revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2002; and the carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 that include adjustments for the effects of hyperinflation which existed in the Russian Federation prior to 1 January 2003.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Company’s functional currency.

These consolidated financial statements are presented in United States dollars (“USD”) since management believes that this currency is more useful for the users of the consolidated financial statements. All financial information presented in USD has been rounded to the nearest thousand.

The translation from RUR (functional currency of the Company) into USD (presentation currency) is made as follows:

- All assets and liabilities are translated at closing exchange rates at the dates of each balance sheet presented;

- All income and expenses in each income statement are translated at the average exchange rates for the periods presented that approximate the actual exchange rates existing at the dates of the transactions; and
- All resulting exchange differences are recognised directly in shareholders equity as foreign currency translation reserve.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). It was determined that RUR is the functional currency of all foreign subsidiaries of the Group.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The RUR is not a readily convertible currency outside the Russian Federation and, accordingly, any conversion of RUR to USD should not be construed as a representation that the RUR amounts have been, could be, or will be in the future, convertible into USD at the exchange rate disclosed, or at any other exchange rate.

Use of estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

- Note 3 – accounting for construction contracts;
- Note 3 – useful lives of property, plant and equipment;
- Note 3 – useful lives of intangible assets;
- Note 3 – impairment of assets;
- Note 15 – provision for obsolete inventory;
- Note 23 – provision for warranties and onerous contracts;
- Note 30 – tax matters.

Prior year errors

The amount reported as cost of sales for the year ended 31 December 2006 includes a provision for loss of USD 6,894 thousand with respect to a construction contract, which was suspended in 2005 because the customer was not able to obtain certain government approvals required to finance the construction. Management has not made an estimate of the net realizable value of the amounts recoverable under this contract as of 31 December 2005.

(In thousands of US dollars unless otherwise stated)

During the year ended 31 December 2006, the Group has recorded a loss on a construction contract in the amount of USD 7,480 thousand. This loss relates to the year ended 31 December 2005. The Group chose not to restate the prior year for this error. Had the Group restated the prior year for this error, cost of sales would have decreased by USD 7,480 thousand, loss before tax, income tax benefit and net loss for the year ended 31 December 2006 would have decreased by USD 7,480 thousand, USD 1,795 thousand and USD 5,685 thousand, respectively, and retained earnings as of 1 January 2006 would have decreased by USD 5,685 thousand.

During the year ended 31 December 2006 the Group identified an error in the calculation of the deferred tax liability as of 31 December 2005. The Group corrected this error by recording an additional income tax expense of USD 3,112 thousand in the year ended 31 December 2006. International Financial Reporting Standards require prior period errors to be corrected by retrospective restatement. Had the Group appropriately accounted for this correction of an error, the income tax benefit for the year ended 31 December 2006 would have increased by USD 3,112 thousand and retained earnings as of 1 January 2006 would have increased by USD 3,112 thousand.

Prior year restatement

Subsequent to the issuance of the consolidated financial statements for the year ended 31 December 2006, Management determined that, in accordance with IAS 11 *Construction contracts,* advances received on uncompleted construction contracts and amounts of progress billings in excess of costs and estimated profits less recognised losses on uncompleted construction contracts as of 31 December 2006, would be appropriately presented within current trade and other payables. The corresponding amounts of advances received of USD 459,462 thousand and amounts of progress billings in excess of costs and estimated profits less recognised losses on uncompleted construction contracts of USD 3,233 thousand as of 31 December 2006 were reclassified from current trade and other receivables accordingly.

The effect of the restatement is as follows:

CONSOLIDATED BALANCE SHEET

	As previously reported	Reclassification	As restated
Current trade and other receivables	212,937	462,695	675,632
Current trade and other payables	150,722	462,695	613,417

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Associates

Associates are those enterprises in which the Group has significant influence, but does not have control over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates accounted for using the equity method, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the carrying amount of its interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains and losses are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Property, plant and equipment

Owned assets

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads. The cost of property, plant and equipment at the date of adopting IFRS, 1 January 2002, was determined by reference to its fair value at that date ("deemed cost").

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payment at inception of the lease less accumulated depreciation and impairment losses (see accounting policy below).

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefit will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date when an asset is ready for its intended use. Land is not depreciated.

The estimated useful lives are as follows:

- Buildings 30-90 years;
- Machinery and equipment 15-30 years;
- Transportation equipment 5-18 years;
- Other property and equipment 4-25 years.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

Intangible assets

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labor and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Other intangible assets

Other intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation (refer below) and impairment losses (refer to accounting policy below). Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use.

The estimated useful lives are as follows:

- Development costs 7 years;
- Other intangible assets 2-15 years.

Investments

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Trade and other receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as receivables. They are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Retentions under long-term contracts are recognised as non-current assets where appropriate.

Amounts recoverable on construction contracts are stated at cost plus profit recognised to date (see accounting policy below) less a provision for foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group’s contract activities based on normal operating capacity. Advances received are recognized as revenue when the related works are performed and in accordance with the revenue reconition policy disclosed below.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all financial assets objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is calculated on the weighted average basis or using the specific identification method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Impairment

The carrying amounts of the Group's assets, other than inventories (refer to accounting policy above) and deferred tax assets (refer to accounting policy below), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Calculation of recoverable amount

The recoverable amount of the Group's held-to-maturity investments and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Financial liabilities

Financial liabilities, including loans and borrowings, trade and other payables, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Employee benefits

The Group makes contributions for the benefit of employees to Russia's State Pension Fund. These contributions are expensed when employees have rendered services.

Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

Revenue

Goods sold and services rendered

Revenue from sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the contracted services at the balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or possible return of goods or when substantially all risks and rewards of ownership are not transferred to the buyer.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Expenses

Agents' fees

The Group pays fees to agents to secure and facilitate the operation of contracts in certain countries outside Russia. Such payments are deferred and charged to the income statement as distribution expenses over the duration of the contract to which they relate.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

Social costs

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

Financial income and expenses

Financial income and expenses comprise interest expense on borrowings, interest income on funds invested, dividend income and foreign exchange gains and losses.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of financial expenses.

Interest is recognised as it is accrued, taking into account the effective yield on the asset. Dividend income is recognised in the income statement on the date that the dividend is declared.

Income tax

Income tax for the year is comprised of current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that, at the time of transaction, affect neither accounting nor taxable profit and investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Segment reporting

The Group manufactures and buys and sells energy generating equipment to final customers or intermediaries primarily on a turn key basis. Revenues, results and assets attributable to these activities, which have similar risks and returns, comprise substantially all of the Group’s revenues, results and assets. Therefore no separate information in respect of business segments is presented.

The Group’s manufacturing operations are all based in Russia. The Group performs sales within and outside Russia.

New standards and Interpretations not yet adopted

Adoption of new and revised IFRS

In the current year, the Group has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 *Presentation of Financial Statements*.

The impact of the adoption of IFRS 7 *Financial Instruments: Disclosures* and the changes to IAS 1 *Presentation of Financial Statements* has been to expand the disclosures provided in these financial statements regarding the Group’s financial instruments and management of capital.

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- IFRIC 7: *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*;
- IFRIC 8: *Scope of IFRS 2 Share-based Payment*;
- IFRIC 9: *Reassessment of Embedded Derivatives*; and
- IFRIC 10: *Interim Financial Reporting and Impairment*.

The adoption of these Interpretations has not led to any changes in the Group’s accounting policies.

(In thousands of US dollars unless otherwise stated)

New accounting pronouncements

The following new or revised standards and interpretations of IASB and IFRIC have been issued at the date of authorisation of the Group's consolidated financial statements for the year ended 31 December 2007 that are mandatory for adoption in the accounting periods beginning on or after 1 January 2008:

- IAS 23 (Revised) *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 8 *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 11: *IFRS 2 – Group and Treasury Share Transactions* (effective 1 March 2007);
- IFRIC 12: *Service Concession Arrangements* (effective 1 January 2008);
- IFRIC 13: *Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008); and
- IFRIC 14: *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective 1 January 2008).

The impact of adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by management. No material effect on the Group's accounting policies is anticipated.

4. REVENUE

	2007	2006
Energy generating and other equipment	744,109	557,548
Sales of spare parts	25,939	21,524
	770,048	**579,072**

	2007	2006
Russia	410,021	272,964
South-West Asia	141,459	144,429
Central Asia	75,153	8,660
West Europe	43,939	15,146
East Europe	45,068	16,555
Central and South America	30,971	74,038
East Asia	20,608	17,724
Other	2,829	29,556
	770,048	**579,072**

(In thousands of US dollars unless otherwise stated)

5. DISTRIBUTION EXPENSES

	2007	2006
Transport	24,254	14,308
Wages, salaries and related taxes	15,529	10,592
Agency commissions	14,879	16,461
Consulting services	2,863	325
Travel expenses	2,549	2,874
Marketing and advertising expenses	1,971	2,283
Insurance	1,840	643
Other	10,160	7,072
	74,045	**54,558**

6. ADMINISTRATIVE EXPENSES

	2007	2006
Wages, salaries and related taxes	70,344	51,515
Taxes other than income tax	9,422	4,581
Depreciation	7,476	6,480
Repairs and maintenance	4,617	2,832
Bank charges	4,615	3,168
Consulting	4,498	2,258
Amortisation of intangibles	3,710	6,584
Materials	2,425	1,892
Social costs	2,126	1,625
Travel expenses	1,874	1,366
Electricity	1,704	993
Penalties	1,032	597
Insurance	1,000	4,318
Other	17,082	16,731
	131,925	**104,940**

7. OTHER OPERATING INCOME AND EXPENSES

	2007	2006
Other operating income		
Gain on disposal of other assets	4,679	1,156
Amortisation of government grant	3,404	3,813
Decrease in provision for warranty expenses	-	569
Other	3,269	1,236
	11,352	**6,774**
Other operating expenses		
Increase in provision for accounts receivable	10,278	1,579
Increase in provision for warranty expenses	7,221	-
Penalties	3,375	-
Other	95	32
	20,969	**1,611**

(In thousands of US dollars unless otherwise stated)

8. PERSONNEL EXPENSES

	2007	2006
Wages, salaries and related taxes included in:		
Cost of sales	113,221	82,880
Distribution costs	15,529	10,592
Administrative expenses	70,344	51,515
	199,094	**144,987**

The average number of employees for the year ended 31 December 2007 was 13,461 (2006: 13,480).

9. FINANCIAL INCOME AND EXPENSES

	2007	2006
Financial income		
Interest income	1,216	3,998
Other financial income	417	102
Foreign exchange gain	-	22,480
	1,633	**26,580**
Financial expenses		
Interest expense	22,709	22,544
Foreign exchange loss	12,326	-
Bank guarantee expenses	7,390	10,115
	42,425	**32,659**

10. INCOME TAX EXPENSE/(BENEFIT)

	2007	2006
Current tax expense	2,721	4,024
Deferred tax expense/(benefit)	25,992	(36,298)
	28,713	**(32,274)**

The Group’s applicable tax rate is the corporate income tax rate of 24% (2006: 24%).

The total charge for the year can be reconciled to the accounting profit as follows:

	2007	2006
Loss before tax	(275,367)	(164,431)
Income tax benefit using corporate tax rate	(66,088)	(39,463)
Non-deductible expenses	13,741	5,342
Non-taxable income	(1,597)	(1,265)
Provision for deferred tax asset	82,657	-
Correction of prior years’ error	-	3,112
Income tax expense/(benefit)	**28,713**	**(32,274)**

(In thousands of US dollars unless otherwise stated)

11. CONSTRUCTION CONTRACTS

Revenues, costs and onerous contract provisions recognised on long-term contracts in progress during the year amounted to:

	2007	2006
Contract revenue	523,021	420,355
Contract costs	(461,643)	(357,103)
Increase in provision for onerous contracts	(128,748)	(72,417)
Gross loss	**(67,370)**	**(9,165)**

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Transpor-tation equipment	Other	Assets under construction	Total
Cost/deemed cost						
At 31 December 2005	339,107	719,436	15,694	38,938	18,060	1,131,235
Additions	745	4,381	441	6,244	7,297	19,108
Transfers	2,173	13,517	4	1,598	(17,292)	-
Disposals	(851)	(17,370)	(1,062)	(477)	(684)	(20,444)
Translation adjustments	31,571	66,979	1,461	3,625	1,681	105,317
At 31 December 2006	**372,745**	**786,943**	**16,538**	**49,928**	**9,062**	**1,235,216**
Additions	3,298	17,563	1,757	10,257	36,232	69,107
Transfers	5,025	5,773	45	215	(11,058)	-
Disposals	(530)	(18,805)	(922)	(785)	-	(21,042)
Translation adjustments	27,432	56,723	1,240	4,037	1,716	91,148
At 31 December 2007	**407,970**	**848,197**	**18,658**	**63,652**	**35,952**	**1,374,429**
Depreciation						
At 31 December 2005	(270,484)	(587,311)	(12,585)	(23,507)	-	(893,887)
Charge for the year	(2,215)	(20,371)	(1,274)	(4,724)	-	(28,584)
Disposals	350	13,208	1,052	433	-	15,043
Translation adjustments	(25,182)	(54,585)	(1,173)	(2,308)	-	(83,248)
At 31 December 2006	**(297,531)**	**(649,059)**	**(13,980)**	**(30,106)**	**-**	**(990,676)**
Charge for the year	(2,306)	(21,114)	(1,243)	(6,309)	-	(30,972)
Disposals	482	17,758	550	583	-	19,373
Translation adjustments	(21,712)	(47,338)	(1,046)	(2,430)	-	(72,526)
At 31 December 2007	**(321,067)**	**(699,753)**	**(15,719)**	**(38,262)**	**-**	**(1,074,801)**
Net book value						
At 31 December 2006	**75,214**	**137,884**	**2,558**	**19,822**	**9,062**	**244,540**
At 31 December 2007	**86,903**	**148,444**	**2,939**	**25,390**	**35,952**	**299,628**

As of 31 December 2007 property, plant and equipment with a carrying amount of USD 72,278 thousand (2006: USD 61,325 thousand) have been pledged to secure borrowings of the Group (See Note 20). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

Leased machinery

The Group leases production equipment under a number of finance lease agreements.
As at 31 December 2007 the net carrying amount of leased machinery and equipment was USD 1,357 thousand (2006: USD 9,524 thousand).

(In thousands of US dollars unless otherwise stated)

13. INTANGIBLE ASSETS

	Development projects		Other	Total
	Completed	In process	intangible assets	
Cost				
At 31 December 2005	21,568	5,735	7,294	34,597
Additions	9	3,763	277	4,049
Transfers	356	(3,850)	3,494	-
Disposals	(245)	(397)	(413)	(1,055)
Translation adjustments	2,008	534	679	3,221
At 31 December 2006	**23,696**	**5,785**	**11,331**	**40,812**
Additions	578	7,937	1,135	9,650
Transfers	-	(2,488)	2,488	-
Disposals	(288)	-	(370)	(658)
Translation adjustments	1,740	649	961	3,350
At 31 December 2007	**25,726**	**11,883**	**15,545**	**53,154**
Amortisation				
At 31 December 2005	(3,561)	-	(3,366)	(6,927)
Charge for the year	(5,263)	-	(2,221)	(7,484)
Disposals	158	-	271	429
Translation adjustments	(332)	-	(313)	(645)
At 31 December 2006	**(8,998)**	**-**	**(5,629)**	**(14,627)**
Charge for the year	(5,132)	-	(1,493)	(6,625)
Disposals	269	-	231	500
Translation adjustments	(858)	-	(462)	(1,320)
At 31 December 2007	**(14,719)**	**-**	**(7,353)**	**(22,072)**
Net book value				
At 31 December 2006	**14,698**	**5,785**	**5,702**	**26,185**
At 31 December 2007	**11,007**	**11,883**	**8,192**	**31,082**

The aggregate amount of research and development expenditure recognised as an expense during 2007 was USD 1,512 thousand (2006: USD 7,298 thousand).

14. NON-CURRENT TRADE AND OTHER RECEIVABLES

	2007	2006
Trade accounts receivable	32,112	27,611
Other receivables	2,015	994
	34,127	**28,605**

Trade and other receivables were denominated in the following currencies:

	2007	2006
RUR nominated	2,016	1,830
USD nominated	22,675	23,894
EUR nominated	7,733	1,141
Other foreign currency nominated	1,703	1,740
	34,127	**28,605**

(In thousands of US dollars unless otherwise stated)

At 31 December 2007 trade accounts receivable included contractual retention amounts billed to customers amounting to USD 22,609 thousand (2006: USD 22,504 thousand).

15. INVENTORIES

	2007	**2006**
Raw materials and consumables	57,909	57,314
Work in progress	51,944	33,511
Finished goods and goods for resale	58,114	30,502
Supplies	7,858	8,497
	175,825	129,824
Provision for obsolete inventory	(15,918)	(4,593)
	159,907	**125,231**

Cost of inventories recognised as an expense during 2007 was USD 407,437 thousand (2006: USD 299,991 thousand).

16. TRADE AND OTHER RECEIVABLES

	2007	**2006 (restated, see Note 2)**
Trade receivables	92,956	55,253
Less provision for trade receivables	(5,821)	(1,930)
	87,135	**53,323**
Other receivables	13,890	10,010
Less provision for other receivables	(6,358)	(1,069)
	7,532	**8,941**
Costs and estimated profits less recognized losses in excess of progress billings on uncompleted construction contracts	367,060	440,022
Prepayments	249,931	105,992
VAT receivable	47,863	47,178
Deferred expenses	9,192	18,671
Receivables from employees	1,982	1,505
	770,695	**675,632**

At 31 December 2007 trade accounts receivable included contractual retention amounts billed to customers amounting to USD 13,435 thousand (2006: USD 10,831 thousand).

Trade and other receivables were denominated in the following currencies:

	2007	**2006**
RUR nominated	45,458	18,844
USD nominated	48,241	25,647
EUR nominated	8,741	15,693
Other foreign currency nominated	4,407	5,079
Less provision for trade and other receivables	(12,180)	(2,999)
	94,667	**62,264**

(In thousands of US dollars unless otherwise stated)

Included in the Group's receivable balance are debtors with a carrying amount of USD 2,968 thousand which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and amounts are still considered recoverable. The Group does not hold any collateral over these outstanding balances.

Ageing of impaired trade and other receivables:

	2007	**2006**
less than 30 days	2,164	76
31 - 90 days	4,053	-
91 - 180 days	3,993	-
thereafter	1,970	2,923
	12,180	**2,999**

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise local and foreign currency bank balances and call deposits.

	2007	**2006**
Foreign currency bank accounts	12,516	9,422
Foreign currency bank deposits	7,138	22,739
Rouble bank accounts	17,391	7,909
Rouble bank deposits	65,346	-
Other rouble denominated cash equivalents	862	850
	103,253	**40,920**

18. EQUITY

In August 2007 the Company issued 1,492,000,000 ordinary shares with par value of RUR 0.01. Shares were placed on local stock exchange market. The Company received cash from issuance of shares of USD 268,656 thousand. The excess of cash received from issuance of shares over their par value of USD 268,078 thousand was recognised as increase of Additional paid-in capital.

Share capital

Number of shares	**Ordinary shares**	
	2007	**2006**
On issue at beginning of year	7,216,938,708	7,216,938,708
Issuance of shares	1,492,000,000	-
On issue at end of year	**8,708,938,708**	**7,216,938,708**

As of 31 December 2007 authorised share capital comprised 9,359,450,000 ordinary shares (2006: 9,359,450,000) of which 8,708,938,708 ordinary shares (2006: 7,216,938,708 ordinary shares) were issued and fully paid. All shares have par value of RUR 0.01 (2006: RUR 0.01). All shares rank equally with respect to the Group's residual assets.

(In thousands of US dollars unless otherwise stated)

Additional paid-in capital

Prior to 2007 contributions to additional paid-in capital arose in connection with the formation of the Group in 2002 and 2003 from the excess of fair value over purchase price of shares of the Company's subsidiaries sold to the Group by entities under common control of the majority shareholder or acquired from minorities, less amounts converted to share capital.

Foreign currency translation reserve

Foreign currency translation reserve comprises foreign exchange differences arising from the translation of these consolidated financial statements from the functional to the presentation currency.

Dividends

Dividends payable are limited to retained earnings of the Company as determined in accordance with the legislation of the Russian Federation. As at the balance sheet date, reserves available for distribution in accordance with Russian legislation amounted to USD 40,983 thousand (unaudited).

As disclosed in Note 19, certain of the Company's loan agreements currently restrict the Company from paying dividends.

Voting rights of shareholders

The holders of fully paid ordinary shares are entitled to one vote per share at the Company's annual and general shareholders' meetings.

19. LOANS AND BORROWINGS

	2007	**2006**
Non-current		
Unsecured bank facility	38,278	10,000
Secured bank loans	6,330	37,632
Secured loan from the Ministry of Finance	5,259	5,343
Unsecured loans with other companies	1,837	3,827
Finance lease liability	686	414
	52,390	**57,216**
Current		
Current portion of secured bank loans	114,657	143,131
Unsecured loans with other companies	3,162	659
Current portion of finance lease liability	198	1,130
Current portion of secured loan from the Ministry of Finance	1,274	856
Unsecured bank facility	55	100,530
	119,346	**246,306**
Total loans and borrowings (See also Note 26)	**171,736**	**303,522**

In May 2007 the Group received a long-term loan from VTB Bank EUROPE plc of USD 70,000 thousand. Future cash proceeds under some sales contracts are collateralised under this agreement. Covenants in the loan agreement require the Group to maintain certain financial ratios, prohibit any change to the general nature of the business and limit disposal of assets.

(In thousands of US dollars unless otherwise stated)

The Group may not perform mergers, acquisitions, reorganizations and consolidations without prior written consent of VTB Bank EUROPE plc. As at 31 December 2007, the Group was not in compliance with certain financial ratios required by the loan covenants. Management believes that there is low probability that the bank will demand early repayment of the loan solely because of the breach of covenants. Nevertheless, the loan has been classified as current at the balance sheet date.

20. PLEDGES PROVIDED BY THE GROUP

The following assets and revenue have been pledged to secure the Group's borrowings:

	2007	2006
Property, plant and equipment	72,278	61,325
Inventories and Costs less recognised losses in excess of billings	209,401	191,344
Cash and cash equivalents	-	1,383
Revenue from planned supply of equipment in the future	70,000	56,085
	351,679	**310,137**

Assets and revenue have been pledged to secure the following Group's borrowings:

	2007	2006
Pledged in connection with short-term loans and borrowings	264,857	209,837
Pledged in connection with long-term loans and borrowings	86,822	100,300
	351,679	**310,137**

21. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	2007	2006
Assets		
Short-term investments	469	511
Long-term investments	366	2,872
Inventories	13,246	9,808
Trade and other accounts receivable	13,948	8,133
Trade and other accounts payable	5,601	6,785
Provisions	55,750	21,574
Tax losses carried forward	19,641	-
	109,021	**49,683**
Liabilities		
Property, plant and equipment	(16,820)	(19,433)
Intangible assets	(5,843)	(4,228)
Loans and borrowings	(230)	(815)
	(22,893)	**(24,476)**
Less valuation allowance	(86,128)	-
	-	**25,207**

(In thousands of US dollars unless otherwise stated)

22. TRADE AND OTHER PAYABLES

	2007	2006 (restated, see Note 2)
Advances from customers	753,198	511,545
Progress billings in excess of costs and estimated profits less recognised losses on uncompleted construction contracts	13,109	3,233
Trade accounts payable	79,294	72,199
Employee related liabilities	18,100	13,037
Other taxes payable	6,410	7,225
Accrued liabilities	833	980
Interest payable	418	1,353
Other current liabilities	12,647	3,845
	884,009	**613,417**

At 31 December 2007 advances received from customers on uncompleted construction contracts amounted to USD 560,119 thousand (2006: USD 459,462 thousand).

Financial liabilities (included in trade accounts payable, employee related liabilities and other current liabilities) were denominated in the following currencies:

	2007	2006
RUR nominated	46,179	25,476
USD nominated	42,448	43,826
EUR nominated	15,734	14,440
Other foreign currency nominated	5,680	5,339
	110,041	**89,081**

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2007 and 2006 based on contractual undiscounted payments:

	2007	2006
less than 90 days	61,652	52,443
91 - 180 days	2,603	10,203
181 - 360 days	45,786	26,435
	110,041	**89,081**

23. PROVISIONS

	Provision for warranties	Provision for onerous contracts	Total
Balance at 1 January 2006	2,490	12,195	14,685
Provisions made during the year	116	72,417	72,533
Provisions used during the year	(1,025)	-	(1,025)
Translation differences	222	3,498	3,720
Balance at 1 January 2007	**1,803**	**88,110**	**89,913**
Provisions made during the year	7,221	209,612	216,833
Provisions used during the year	(5,602)	(80,864)	(86,466)
Translation differences	199	11,814	12,013
Balance at 31 December 2007	**3,621**	**228,672**	**232,293**

(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. A provision of USD 3,621 thousand has been recognised at 31 December 2007 (2006: USD 1,803 thousand) for expected warranty claims based on past experience of the level of repairs and returns.

Provision for onerous contracts – Provisions for onerous contracts are recognised when the expected revenues are lower than the expected costs to completion.

24. OTHER NON-CURRENT LIABILITIES

	2007	2006
Trade accounts payable	1,356	13,544
Government grant	7,435	10,237
	8,791	**23,781**

Trade payables were denominated in the following currencies:

	2007	2006
RUR nominated	-	431
USD nominated	892	12,698
EUR nominated	-	97
Other foreign currency nominated	464	318
	1,356	**13,544**

In 2005, the Group received a government grant of RUR 400,000 thousand (USD 15,191 thousand at the date of the grant) for the development of technology related to turbine production. To date the Group has recognised USD 7,756 thousand in its consolidated statement of income in respect of this grant. The remaining amount of deferred income will be amortised over the same period as the related development costs are amortised.

25. LOSS PER SHARE

The loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The Group has no potentially dilutive shares.

The weighted average number of ordinary shares used in the calculation of basic loss per share is as follows:

	2007	2006
Weighted average number of ordinary shares	7,838,264,735	7,216,938,708

(In thousands of US dollars unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments are foreign currency, interest rate, credit and liquidity risks.

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure, at the same time the management of the Group is trying to mitigate such risk by managing monetary assets and liabilities in foreign currency at the same (more or less stable) level.

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities as at the reporting date are as follows:

	USD		EURO	
	2007	**2006**	**2007**	**2006**
Assets				
Trade and other receivables	70,916	49,541	16,474	16,834
Cash and cash equivalents	9,343	3,705	3,567	1,280
Total assets	**80,259**	**53,246**	**20,041**	**18,114**
Liabilities				
Loans and borrowings	(87,963)	(158,492)	(32,781)	(51,001)
Trade and other payables	(43,340)	(56,524)	(15,734)	(14,537)
Total liabilities	**(131,303)**	**(215,016)**	**(48,515)**	**(65,538)**
Total net position	**(51,044)**	**(161,770)**	**(28,474)**	**(47,424)**

The table below details the Group's sensitivity to strengthening of the RUR against USD and EURO by 10%. The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

	USD – impact		EURO – impact	
	2007	**2006**	**2007**	**2006**
Profit	5,671	17,984	3,164	5,269

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use any derivatives to manage interest rate risk exposure, at the same time the majority of the Group's financial assets and liabilities are at fixed rates and thus risk is limited.

The table below details the Group's sensitivity to decrease of floating rate by 1%. The analysis was applied to loans and borrowings (financial liabilities) based on the assumptions that amount of liability outstanding as at the balance sheet date was outstanding for the whole year.

(In thousands of US dollars unless otherwise stated)

	LIBOR – impact		EURO LIBOR – impact	
	2007	**2006**	**2007**	**2006**
Profit	790	1,523	293	510

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group.

Before accepting of any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit terms separately for each individual customer. Credit limits attributable to customer are not a subject to subsequent change.

Of trade current and non-current accounts receivable at 31 December 2007 the Group's ten largest customers (individually exceed 2% of the total balance) represent 62% (2006: 44%) from the total outstanding balance.

The summary below shows top ten counterparties at the respective balance sheet date:

	Customer location	**2007**	**2006**
OJSC Mosenergo	Russia	17,673	-
CJSC Atomstroyexport	Russia	14,700	17,124
Ministry of Electricity Directorate General for Energy Production Projects	Iraq	7,469	-
The Vietnam Machinery Erection Corporation	Vietnam	7,292	8,598
Siemens AG Power Generation	Germany	6,975	-
OJSC Ziomar	Russia	6,343	314
CJSC System-Consulting	Russia	5,133	-
Sumitomo Corporation	Japan	4,110	287
Constructora Internacional de Infraestructura Sociedad Anonima de Capital Variable	Mexico	3,655	-
OJSC Technopromexport	Russia	2,904	4,815
CJSC Remol	Russia	-	1,813
Fortum Generation AB	Finland	309	1,273
Nuclear Power Corporation of India Ltd.	India	-	1,043
Energico Oy	Finland	700	951
Ministry of Energy and Natural Resources of Turkey	Turkey	-	607
		77,263	**36,825**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

The summaries of maturity profile of the Group's financial liabilities as at 31 December 2007 and 2006 based on contractual payments are presented in note 22 and below.

(In thousand of US dollars unless otherwise stated)

The following tables show the contractual maturities of interest-bearing financial liabilities.

2007	**Average interest rate**									
	Contract	**Effective**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**Over 5 yrs**	**Total**
Secured bank loans:										
RUR	7.57%	7.57%	42,553	746	2,735	1,491	746	-	-	**48,271**
EUR	CIRR+3.52%	7.20%	679	679	679	679	-	-	-	**2,716**
USD	LIBOR+2.3%	7.62%	-	70,000	-	-	-	-	-	**70,000**
Secured Loan from Ministry of Finance										
USD	3%	6.89%	1,274	-	1,799	2,090	1,370	-	-	**6,533**
Unsecured bank loans:										
EUR	EURIBOR+2.4%	5.54%	-	55	14,639	14,639	-	-	-	**29,333**
USD	LIBOR+2.375%	7.70%	-	-	-	4,500	4,500	-	-	**9,000**
Unsecured loans with other companies										
RUR	0%	10%	-	-	1,837	-	-	-	-	**1,837**
EUR	9%	9%		732	-	-	-	-	-	**732**
USD	0%	0%	30	2,400	-	-	-	-	-	**2,430**
Finance lease liabilities – RUR	20.03%	20.03%	-	198	686	-	-	-	-	**884**
			44,536	**74,810**	**22,375**	**23,399**	**6,616**	**-**	**-**	**171,736**

2006	**Average interest rate**									
	Contract	**Effective**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**Over 5 yrs**	**Total**
Secured bank loans:										
RUR	7.81%	7.81%	-	78,884	-	-	-	-	-	**78,884**
USD	LIBOR + 2.95% to 4.5%	6.78%	51,848	11,177	11,418	2,850	-	-	-	**77,293**
EUR	EURIBOR + 2.75%	8.29%	611	611	1,222	22,142	-	-	-	**24,586**
Secured Loan from Ministry of Finance										
USD	3%	9.89%	-	856	1,041	1,233	1,434	1,635	-	**6,199**
Unsecured bank loans:										
RUR	6.5%	6.5%	9,115	-	-	-	-	-	-	**9,115**
EUR	EURIBOR + 2.5%	5.54%	26,354	61	-	-	-	-	-	**26,415**
USD	LIBOR + 2.65 to 2.7%	7.85%	47,500	17,500	-	5,000	5,000	-	-	**75,000**
Unsecured loans with other companies – RUR	0%	13%	-	659	-	3,827	-	-	-	**4,486**
Finance lease liabilities – RUR	29.81%	28.93%	1,130	-	414	-	-	-	-	**1,544**
			136,558	**109,748**	**14,095**	**35,052**	**6,434**	**1,635**	**-**	**303,522**

(In thousand of US dollars unless otherwise stated)

Fair value

The carrying amounts of financial instruments approximate their fair value. The fair values were determined as follows:

Trade and other receivables and payables. For receivables and payables with a maturity of less than twelve months fair value is not materially different from the carrying amount because the effect of the time value of money is not material. For non-current receivables and payables, expected future principal and interest cash flows were discounted at rates of between 8% and 19%.

Loans and borrowings. Fair value is not materially different from the carrying amount because contractual interest rates were not materially different from market rates.

27. RELATED PARTY TRANSACTIONS

Transactions with management

Key management received the following remuneration during the year, which is included in personnel expenses:

	2007	**2006**
Salaries and bonuses	6,133	5,985
Termination benefits	7,131	226
	13,264	**6,211**

Transactions with other related parties

As of 31 December 2007 the largest immediate shareholders of the Group are Highstat Limited (55%) and Siemens Aktiengesellschaft (25%). The ultimate controlling shareholder of Highstat Limited and the Group is Mr. Alexey A. Mordashov.

The Group considers all subsidiaries, fellow subsidiaries and associates of its shareholders as related parties. The Group considers all parties that control or have significant influence on its shareholders as related parties.

	2007	**2006**
Sales of goods		
Entities with significant influence	150,837	51,985
Associates	662	-
	151,499	**51,985**

	2007	**2006**
Services provided		
Entities with significant influence	79,146	4,036
Associates	3,863	25
	83,009	**4,061**

(In thousand of US dollars unless otherwise stated)

	2007	2006
Trade and other receivables		
Entities with significant influence	18,830	5,572
Associates	410	19
	19,240	**5,591**

	2007	2006
Prepayments made		
Entities with significant influence	77,497	18,230
Associates	50	273
	77,547	**18,503**

	2007	2006
Purchases of goods		
Entities with significant influence	63,893	26,994
Associates	6,343	92
	70,236	**27,086**

	2007	2006
Purchases of services		
Entities with significant influence	6,678	4,979
Associates	120	389
	6,798	**5,368**

	2007	2006
Trade and other payables		
Entities with significant influence	5,654	2,611
Associates	-	126
	5,654	**2,737**

	2007	2006
Prepayments received		
Government of Russian Federation	-	15,229
Entities with significant influence	19,175	131,676
Associates	5,258	-
	24,433	**146,905**

(In thousand of US dollars unless otherwise stated)

28. SUBSIDIARIES AND ASSOCIATES

Listed below are all the significant subsidiaries and associates included in the consolidated financial statements:

Name of company	Principal activity	Country of incorporation	Ownership interest	
			2007	2006
Subsidiaries:				
Power Machines de Mexico	Installation of energy equipment	Mexico	99.90%	99.90%
Power Machines (India) Limited	Installation of energy equipment	India	100.00%	100.00%
LMZ Energy Limited	Sales of energy equipment	Ireland	100.00%	100.00%
EMEC LTDa	Installation of energy equipment	Columbia	99.99%	99.99%
OOO Interturbo	Production of turbines	Russia	55.12%	55.12%
OOO Reostat	Production of electric engines	Russia	100.00%	100.00%
Enermach Handels GmbH	Wholesales of spare parts for locomotives	Germany	100.00%	100.00%
Associates:				
ZAO Interplast	Production of equipment	Russia	50.00%	50.00%
NPO CKTI	Research and development	Russia	35.00%	35.00%

29. COMMITMENTS

(i) Capital commitments

At 31 December 2007, the Group was committed to capital expenditure (property, plant and equipment) of approximately USD 4,263 thousand (2006: USD 1,066 thousand).

(ii) 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.

(In thousand of US dollars unless otherwise stated)

30. CONTINGENCIES

(i) Financial Guarantees

The Group has provided financial guarantees for certain third party suppliers of the Group. Amounts related to the Group's financial guarantees are as follows:

	2007	2006
Maturity in one year or more		
Third party suppliers	129	686,318
Maturity in less than one year		
Third party suppliers	682,381	-
	682,510	**686,318**

During the period ended 31 December 2007, the Group was a co-signatory to a guarantee of USD 682,381 thousand given by a consortium of companies (including the Group) against a loan obtained by CIISA, an entity that is constructing a power station in Mexico in which the Group participates in the construction. The Group's exposure under this guarantee is estimated to be the equivalent of USD 129,652 thousand. As of 31 December 2007 the outstanding amount of the loan obtained by CIISA was nil (2006: USD 430,178 thousand).

The Group's contingent maximum exposure to credit losses in the event of non-performance by all other parties to these financial guarantees would amount to the total contractual amount of the guarantee indicated above.

(ii) 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.

(iii) Litigation

The Group has a number of claims including contract related 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 financial statements, as well as historical experience with such claims and litigations, management estimates that possible losses associated with unresolved contract related disputes at 31 December 2007, may amount up to USD 20,908 thousand.

In addition, the Group has a number of small claims and litigation relating to sales and purchases of goods and services from suppliers. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

(iv) Taxation contingencies

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing a tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

Under the Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

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.

In 2007 the tax authorities performed an audit of activities of the Company in 2004. As a result of the audit the Company was assessed USD 22,083 thousand of additional income tax and respective penalties. On 3 April 2008 the Company won in the first instance court and sustained its position in full. Later on the tax authorities filed an appeal, contesting the court decision. At 31 December 2007, no provision for any additional taxes and penalties has been made, as the management believes that the risk of an unfavorable outcome of the litigation to the Group is not probable.

(v) 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.

(vi) Russian business environment

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterized by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets.

Stability and success of Russian economy and the Group's business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal and political systems.

(vii) Working capital deficiencies

As of 31 December 2007 the Group's current liabilities exceeded its current assets by USD 182,171 thousand (2006: USD 101,043 thousand). Additionally, the Group has incurred a net loss of USD 304,080 thousand for the year ended 31 December 2007 (2006: USD 132,157 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.

31. POST BALANCE SHEET EVENTS

On 20 March 2008, the Group purchased 260,178 ordinary shares of OJSC Kaluzhsky turbine plant from its shareholder Highstat Limited for USD 53,710 thousand.