Open Joint Stock Company Power Machines and subsidiaries

Consolidated Financial Statements
For the Year Ended 31 December 2008

OPEN JOINT STOCK COMPANY POWER MACHINES AND SUBSIDIARIES

TABLE OF CONTENTS

OPEN JOINT STOCK COMPANY POWER MACHINES AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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 2008, 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 system of internal controls throughout the Group;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking steps 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 2008 were approved for issue on 17 April 2009 by the Management Board.

On behalf of the Management Board:

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

Deloitte.

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 AUDITORS’ 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 2008, 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.

Auditors’ 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.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

17 April 2009

OPEN JOINT STOCK COMPANY POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
(In thousands of US dollars unless otherwise stated)

	Note	2008	2007
Revenue	4	1,312,285	770,048
Cost of sales		(1,013,878)	(789,245)
Gross profit/(loss)		**298,407**	**(19,197)**
Distribution expenses	5	(67,642)	(74,045)
Administrative expenses	6	(165,302)	(125,184)
Other operating income	7	15,134	11,352
Other operating expenses	7	(30,049)	(23,095)
Profit/(loss) from operations		**50,548**	**(230,169)**
Financial income	9	32,819	1,633
Financial expenses	9	(25,750)	(47,040)
Income from associates		600	209
Profit/(loss) before tax		**58,217**	**(275,367)**
Income tax benefit /(expense)	10	21,409	(28,713)
Net profit/(loss) for the year		**79,626**	**(304,080)**
Attributable to:			
Shareholders of the Company		85,774	(304,107)
Minority interest		(6,148)	27
		79,626	**(304,080)**
Basic earnings/(loss) per share (US dollars)	25	0.0091	(0.0388)

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2008
(In thousands of US dollars unless otherwise stated)

	Note	2008	2007
Assets			
Property, plant and equipment	12	388,610	299,628
Goodwill	29	3,733	-
Other intangible assets	13	29,942	31,082
Investments in associates		4,901	5,211
Other investments		2,314	1,943
Deferred tax assets	21	21,340	-
Non-current trade and other receivables	14	42,585	34,127
Total non-current assets		**493,425**	**371,991**
Inventories	15	180,414	159,907
Trade and other receivables	16	1,376,540	771,162
Current tax asset		641	19,155
Cash and cash equivalents	17	328,281	103,253
Total current assets		**1,885,876**	**1,053,477**
Total assets		**2,379,301**	**1,425,468**
Equity			
Issued capital		11,141	11,141
Additional paid-in capital		393,358	393,358
Foreign currency translation reserve		27,167	56,765
Accumulated deficit		(248,089)	(333,863)
Total equity attributable to shareholders of the Company		**183,577**	**127,401**
Minority interest		55,550	1,238
Total equity		**239,127**	**128,639**
Liabilities			
Borrowings	19	20,448	52,390
Deferred tax liabilities	21	13,575	-
Other liabilities	24	4,499	8,791
Total non-current liabilities		**38,522**	**61,181**
Borrowings	19	112,458	119,346
Trade and other payables	22	1,807,169	884,009
Provisions	23	182,025	232,293
Total current liabilities		**2,101,652**	**1,235,648**
Total equity and liabilities		**2,379,301**	**1,425,468**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008
(In thousands of US dollars unless otherwise stated)

	2008	2007
Cash flows from operating activities		
Net profit/(loss) for the year	79,626	(304,080)
Adjustments for:		
Depreciation and amortization	53,691	37,597
Gain on disposal of property, plant and equipment and other assets	(4,826)	(4,679)
Change in provision for trade and other receivable	218	10,278
Change in provision for obsolete inventory	3,578	10,548
Change in other provisions	(20,307)	130,367
Amortisation of government grant	(2,668)	(3,404)
Income from associates	(600)	(209)
Interest income	(15,198)	(1,216)
Interest expense	11,853	22,709
Income tax (benefit)/expense	(21,409)	28,713
Operating profit/(loss) before changes in working capital	**83,958**	**(73,376)**
Increase in inventories	(11,616)	(35,086)
Increase in trade and other receivables	(688,128)	(91,848)
Increase in trade and other payables	1,073,188	242,278
Cash flows from operations before income tax and interest paid	**457,402**	**41,968**
Interest paid	(9,155)	(23,644)
Income tax reimbursed /(paid) from budget	9,145	(15,536)
Cash flows generated by operating activities	**457,392**	**2,788**
Cash flows from investing activities		
Additions to property, plant and equipment and intangible assets	(93,320)	(73,838)
Net cash flow from other investments	(319)	7,455
Acquisition of subsidiaries, net of cash acquired	(51,517)	-
Proceeds from disposal of property, plant and equipment and other assets	1,562	633
Interest received	15,198	966
Cash flows used in investing activities	**(128,396)**	**(64,784)**
Financing activities		
Proceeds from issuance of ordinary shares	-	268,656
Proceeds from borrowings	327,729	760,224
Repayments of borrowings	(378,722)	(905,188)
Cash flows (used in)/generated by financing activities	**(50,993)**	**123,692**
Currency translation differences	(52,975)	637
Net increase in cash and cash equivalents	225,028	62,333
Cash and cash equivalents at the beginning of the year	103,253	40,920
Cash and cash equivalents at the end of the year	**328,281**	**103,253**

OPEN JOINT STOCK COMPANY POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008
(In thousands of US dollars unless otherwise stated)

	Ordinary shares	Additional paid-in capital	Foreign currency translation reserve	Accumulated deficit	Total attributable to shareholders of the Company	Minority interest	Total equity
Balance at 31 December 2006	**10,563**	**125,280**	**45,926**	**(29,756)**	**152,013**	**1,129**	**153,142**
Loss for the year	-	-	-	(304,107)	(304,107)	27	(304,080)
Currency translation differences	-	-	10,839	-	10,839	82	10,921
Total recognised income and expenses	-	-	10,839	(304,107)	(293,268)	109	(293,159)
Issuance of ordinary shares	578	268,078	-	-	268,656	-	268,656
Balance at 31 December 2007	**11,141**	**393,358**	**56,765**	**(333,863)**	**127,401**	**1,238**	**128,639**
Profit for the year	-	-	-	85,774	85,774	(6,148)	79,626
Currency translation differences	-	-	(29,598)	-	(29,598)	(14,403)	(44,001)
Total recognised income and expenses	-	-	(29,598)	85,774	56,176	(20,551)	35,625
Minority interest in subsidiary acquired during the period (note 29)	-	-	-	-	-	79,578	79,578
Decrease in minority interest due to increase of Group's share in subsidiary (note 29)	-	-	-	-	-	(4,715)	(4,715)
Balance at 31 December 2008	**11,141**	**393,358**	**27,167**	**(248,089)**	**183,577**	**55,550**	**239,127**

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, the 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 include the manufacture of turbines, generators and other energy-generating equipment at plants located in St. Petersburg and Kaluga, the Russian Federation. The plants, Leningradskiy Metalicheskiy Zavod, Electrosila and Zavod Turbinich Lopatok are branches of the Company. During 2008 the Group acquired the controlling share in OJSC "Kaluga Turbine Plant" (see also Note 29). 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"). 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). RUR is the functional currency of the Company and all its foreign subsidiaries except for those operating with a significant degree of autonomy (See also Note 28).

Transactions in currencies other than the entities' 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.

(In thousands of US dollars unless otherwise stated)

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 the functional currency into 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.

Exchange rates, used in preparation of the consolidated financial statements were as follows:

	2008	**2007**
Russian Rouble/USD		
31 December	29.3804	24.5462
Average for the year	24.8553	25.5770
Indian Rupees/USD		
31 December	48.7995	40.0000
Average for the year	42.8578	42.3514
EURO/USD		
31 December	0.7089	0.6831
Average for the year	0.6823	0.7304

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.

Current assets and liabilities

A significant portion of the Group's operating cycle, including long-term construction activities, exceeds one year. For classification of current assets and liabilities related to these types of construction activities, the Group elected to use the duration of the individual contracts as its operating cycle.

Accordingly, there are accounts receivable, inventories and provisions related to these contracts which will not be realized within one year that have been classified as current.

(In thousands of US dollars unless otherwise stated)

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 31 – tax matters;
- Note 31 – contract related penalties.

Prior year reclassifications

Certain comparative information, presented in the consolidated financial statements for the year ended 31 December 2007, has been reclassified. Reclassifications were based upon management's decision to enhance disclosure of the Group's results of operations through better presentation of certain types of income and expenses on the face of the consolidated income statement.

The effect of reclassifications is presented below:

	Before reclassification	After reclassification	Difference
Administrative expenses	131,925	125,184	(6,741)
Other operating expenses	20,969	23,095	2,126
Financial expenses	42,425	47,040	4,615
			-

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.

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.

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.

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 labour 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

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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 labour 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 recognised as revenue when the related works are performed and in accordance with the revenue recognition 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 becomes 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 goodwill (refer to accounting policy above), 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 the State Pension Fund of the Russian Federation. 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 the Russian Federation and outside. 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, 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.

(In thousands of US dollars unless otherwise stated)

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

Adoption of new and revised standards

In the current year, the Group has adopted three Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") that are effective for the current period:

- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*;
- IFRIC 12 *Service Concession Arrangements*;
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

The adoption of these new Interpretations did not have any impact on the Group and did not result in changes to the Group's accounting policies.

New accounting pronouncements

At the date of approval of the Group's consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

New or revised Standards and Interpretations	**Effective for accounting periods beginning on or after**
IAS 1 (Revised) *Presentation of financial statements*	1 January 2009
IAS 23 (Revised) *Borrowing Costs*	1 January 2009
IAS 27 (Revised) *Consolidated and Separate Financial Statements*	1 July 2009
Amendment to IAS 32 *Financial Instruments: Presentation*	1 January 2009
Amendment to IAS 39 *Financial Instruments: Recognition and Measurement*	1 January 2009
IFRS 1 (Revised) *First-time Adoption of International Financial Reporting Standards*	1 July 2009
Amendment to IFRS 2 *Share-based Payment*	1 January 2009
IFRS 3 (Revised) *Business Combinations*	1 July 2009
Amendment to IFRS 7 *Financial Instruments: disclosure*	1 January 2009
IFRS 8 *Operating Segments*	1 January 2009
IFRIC 13 *Customer Loyalty Programmes*	1 July 2008
IFRIC 15 *Agreements for the Construction of Real Estate*	1 January 2009
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	1 October 2008
IFRIC 17 *Distributions of Non-cash Assets to Owners*	1 July 2009
IFRIC 18 *Transfers of Assets from Customers*	1 July 2009

The impact of adoption of these Standards and Interpretations in the preparation of consolidated financial statements in the future periods is currently being assessed by the Group's management.

(In thousands of US dollars unless otherwise stated)

4. REVENUE

	2008	2007
Construction contract revenue	1,137,428	497,883
Revenue from sales of goods	114,216	237,292
Revenue from rendering services	51,525	25,187
Other	9,116	9,686
	1,312,285	**770,048**

	2008	2007
Russia	935,771	410,021
India	137,276	117,436
Europe	103,526	93,783
China and Central Asia	73,871	78,645
South-East Asia	34,899	20,532
Central and South America	14,154	30,971
Other	12,788	18,660
	1,312,285	**770,048**

5. DISTRIBUTION EXPENSES

	2008	2007
Transport	27,312	24,254
Wages, salaries and related taxes	22,386	15,529
Agency commissions	9,670	14,879
Travel expenses	2,817	2,549
Insurance	1,557	1,840
Marketing and advertising expenses	503	1,971
Consulting services	474	2,863
Other	2,923	10,160
	67,642	**74,045**

6. ADMINISTRATIVE EXPENSES

	2008	2007
Wages, salaries and related taxes	101,703	70,344
Taxes other than income tax	10,925	9,422
Consulting	6,166	4,498
Depreciation	5,888	7,476
Materials	4,569	2,425
Amortisation of intangibles	3,507	3,710
Repairs and maintenance	2,333	4,617
Travel expenses	1,862	1,874
Electricity	1,188	1,704
Insurance	1,209	1,000
Other	25,952	18,114
	165,302	**125,184**

(In thousands of US dollars unless otherwise stated)

7. OTHER OPERATING INCOME AND EXPENSES

	2008	2007
Other operating income		
Gain on disposal of other assets	4,826	4,679
Amortisation of government grant	2,668	3,404
Other	7,640	3,269
	15,134	**11,352**
Other operating expenses		
Social costs	5,994	2,126
Increase in provision for warranty expenses	4,318	7,221
Increase in provision for obsolete inventory	3,578	-
Increase in provision for accounts receivable	218	10,278
Other	15,941	3,470
	30,049	**23,095**

8. PERSONNEL EXPENSES

	2008	2007
Wages, salaries and related taxes included in:		
Cost of sales	179,691	113,221
Administrative expenses	101,703	70,344
Distribution costs	22,386	15,529
	303,780	**199,094**

The average number of employees for the year ended 31 December 2008 was 18,759 (2007: 13,461).

9. FINANCIAL INCOME AND EXPENSES

	2008	2007
Financial income		
Foreign exchange gain	17,621	-
Interest income	15,198	1,216
Other financial income	-	417
	32,819	**1,633**
Financial expenses		
Interest expense	11,853	22,709
Bank guarantee expenses	7,963	7,390
Bank charges	5,934	4,615
Foreign exchange loss	-	12,326
	25,750	**47,040**

(In thousands of US dollars unless otherwise stated)

10. INCOME TAX (BENEFIT)/EXPENSE

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

	2008	2007
Current tax expense	9,336	2,721
Deferred tax (benefit)/expense	(30,745)	25,992
	(21,409)	**28,713**

The statutory tax rate effective in the Russian Federation was 24% in 2008 and 2007. In November 2008, an amendment to the Tax Code was enacted to reduce corporate income tax from 24% to 20% effective from 1 January 2009.

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax. Below is a reconciliation of theoretical income tax at 24% to the actual (benefit)/expense recorded in the Group's income statement:

	2008	2007
Profit/(loss) before tax	58,217	(275,367)
Income tax expense/(benefit) using corporate tax rate of 24%	13,972	(66,088)
Non-deductible expenses	5,992	13,741
Non-taxable income	(1,433)	(1,597)
Change in valuation allowance	(47,796)	82,657
Effect of change in statutory tax rate	7,856	-
Income tax (benefit)/expense	**(21,409)**	**28,713**

Movement in deferred income tax for the year was as follows:

	2008	2007
Balance at beginning of the year (Note 21)	-	25,207
Benefit /(expense) recognised during the year	30,745	(25,992)
Acquired through business combination (Note 29)	(26,101)	-
Effect of translation to presentation currency	3,121	785
Balance at end of year (Note 21)	**7,765**	**-**

11. CONSTRUCTION CONTRACTS

Contracts in progress at the balance sheet date:

	2008	2007
Construction costs incurred plus recognised profits less recognised losses to date	2,156,279	1,539,500
Less: progress billings	(1,455,315)	(1,185,549)
	700,964	**353,951**

(In thousands of US dollars unless otherwise stated)

Recognised and included in the financial statements as amounts due:

	2008	2007
From customers under construction contracts (Note 16)	715,679	367,060
To customers under construction contracts (Note 22)	(14,715)	(13,109)
	700,964	**353,951**

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 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**
Additions	472	25,327	1,417	177	44,649	72,042
Acquired through business combination	98,698	41,016	1,344	271	3,782	145,111
Transfers	6,447	23,285	1,201	10,043	(40,976)	-
Disposals	(331)	(11,175)	(1,083)	(1,843)	(105)	(14,537)
Translation adjustments	(87,552)	(152,938)	(3,619)	(11,874)	(4,173)	(260,156)
At 31 December 2008	**425,704**	**773,712**	**17,918**	**60,426**	**39,129**	**1,316,889**
Depreciation						
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)**
Charge for the year	(7,090)	(30,767)	(2,059)	(7,143)	-	(47,059)
Disposals	153	10,654	1,107	1,029	-	12,943
Translation adjustments	53,719	117,030	2,766	7,123	-	180,638
At 31 December 2008	**(274,285)**	**(602,836)**	**(13,905)**	**(37,253)**	**-**	**(928,279)**
Net book value						
At 31 December 2007	**86,903**	**148,444**	**2,939**	**25,390**	**35,952**	**299,628**
At 31 December 2008	**151,419**	**170,876**	**4,013**	**23,173**	**39,129**	**388,610**

As of 31 December 2008 property, plant and equipment with a carrying amount of USD 56,315 thousand (2007: USD 72,278 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 and vehicles under a number of finance lease agreements. As at 31 December 2008 the net carrying amount of leased machinery and transportation equipment was USD 8,926 thousand (2007: USD 1,357 thousand).

(In thousands of US dollars unless otherwise stated)

13. OTHER INTANGIBLE ASSETS

	Development projects		Other intangible	
	Completed	In process	assets	Total
Cost				
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**
Additions	653	7,500	1,150	9,303
Acquired through business combination (Note 29)	-	-	1,629	1,629
Transfers	1,631	(2,977)	1,346	-
Disposals	(313)	-	(128)	(441)
Translation adjustments	(4,211)	(2,120)	(3,974)	(10,305)
At 31 December 2008	**23,486**	**14,286**	**15,568**	**53,340**
Amortisation				
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)**
Charge for the year	(4,804)	-	(1,828)	(6,632)
Disposals	312	-	94	406
Translation adjustments	3,398	-	1,502	(4,600)
At 31 December 2008	**(15,813)**	**-**	**(7,585)**	**(23,398)**
Net book value				
At 31 December 2007	**11,007**	**11,883**	**8,192**	**31,082**
At 31 December 2008	**7,673**	**14,286**	**7,983**	**29,942**

The aggregate amount of research and development expenditure recognised as an expense during 2008 was USD 2,111 thousand (2007: USD 1,512 thousand).

14. NON-CURRENT TRADE AND OTHER RECEIVABLES

	2008	2007
Trade accounts receivable	41,964	32,112
Other	621	2,015
	42,585	**34,127**

(In thousands of US dollars unless otherwise stated)

Trade and other receivables were denominated in the following currencies:

	2008	**2007**
RUR nominated	935	2,016
USD nominated	23,965	22,675
EUR nominated	6,956	7,733
Other foreign currency nominated	10,729	1,703
	42,585	**34,127**

At 31 December 2008, trade accounts receivable included contractual retention amounts billed to customers amounting to USD 22,529 thousand (2007: USD 22,609 thousand).

15. INVENTORIES

	2008	**2007**
Raw materials and consumables	82,243	57,909
Work in progress	67,808	51,944
Finished goods and goods for resale	53,669	58,114
Supplies	10,506	7,858
	214,226	175,825
Provision for obsolete inventory	(33,812)	(15,918)
	180,414	**159,907**

Cost of inventories recognised as an expense during 2008 was USD 688,913 thousand (2007: USD 407,437 thousand).

16. TRADE AND OTHER RECEIVABLES

	2008	**2007**
Trade receivables	142,906	92,956
Less provision for trade receivables	(4,800)	(5,821)
	138,106	**87,135**
Other receivables	20,403	14,357
Less provision for other receivables	(2,301)	(6,358)
	18,102	**7,999**
Costs and estimated profits less recognised losses in excess of progress billings on uncompleted construction contracts	715,679	367,060
Prepayments	398,692	249,931
VAT receivable	76,201	47,863
Deferred expenses	29,760	9,192
Receivables from employees	-	1,982
	1,376,540	**771,162**

At 31 December 2008 trade accounts receivable included contractual retention amounts billed to customers amounting to USD 11,839 thousand (2007: USD 13,435 thousand).

(In thousands of US dollars unless otherwise stated)

Trade and other receivables were denominated in the following currencies:

	2008	**2007**
RUR nominated	92,005	45,925
USD nominated	44,633	48,241
EUR nominated	16,947	8,741
Other	9,724	4,407
Less provision for trade and other receivables	(7,101)	(12,180)
	156,208	**95,134**

Included in the Group's receivable balance as of 31 December 2008 are debtors 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 past due, but not impaired trade and other receivables:

	2008	**2007**
31–90 days	22	991
91–180 days	5,571	1,977
	5,593	**2,968**

Ageing of impaired trade and other receivables:

	2008	**2007**
Less than 30 days	477	2,164
31–90 days	4	4,053
91–180 days	-	3,993
Thereafter	6,620	1,970
	7,101	**12,180**

As discussed in Note 31, as a result of recent economic turmoil in capital and credit markets globally, and the consequential economic uncertainties existing at 31 December 2008, there exists the potential that assets may be not recovered at their carrying amount in the ordinary course of business. The recoverability of accounts receivable depends to a large extent on the efficacy of the fiscal and other measures as well as other actions, beyond the Group's control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the Group's accounts receivable is determined based on conditions prevailing at 31 December 2008.

(In thousands of US dollars unless otherwise stated)

17. CASH AND CASH EQUIVALENTS

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

	2008	2007
Foreign currency bank accounts	13,696	12,516
Foreign currency bank deposits	143,993	7,138
Rouble bank accounts	24,849	17,391
Rouble bank deposits	145,743	65,346
Other rouble denominated cash equivalents	-	862
	328,281	**103,253**

18. EQUITY

Share capital

Number of ordinary shares	2008	2007
On issue at beginning of year	8,708,938,708	7,216,938,708
Issuance of shares	-	1,492,000,000
On issue at end of year	**8,708,938,708**	**8,708,938,708**

As of 31 December 2008 authorised share capital comprised 9,359,450,000 ordinary shares (2007: 9,359,450,000) of which 8,708,938,708 ordinary shares (2007: 8,708,938,708 ordinary shares) were issued and fully paid. All shares have par value of RUR 0.01 (2007: RUR 0.01). All shares rank equally with respect to the Group's residual assets.

Additional paid-in capital

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 the legislation of the Russian Federation amounted to USD 56,388 thousand (unaudited) (2007: USD 40,983 thousand, unaudited).

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

(In thousands of US dollars unless otherwise stated)

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

	2008	2007
Non-current		
Secured bank loans	14,077	6,330
Unsecured bank facility	4,500	38,278
Finance lease liability	1,871	686
Secured loan from the Ministry of Finance	-	5,259
Unsecured loans with other companies	-	1,837
	20,448	**52,390**
Current		
Current portion of secured bank loans	94,452	114,657
Unsecured bank facility	14,717	55
Unsecured loans with other companies	1,857	3,162
Current portion of finance lease liability	1,432	198
Current portion of secured loan from the Ministry of Finance	-	1,274
	112,458	**119,346**
Total loans and borrowings (Note 26)	**132,906**	**171,736**

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, restrict dividends payments and limit disposal of assets. The Group may not perform mergers, acquisitions, reorganizations and consolidations without prior written consent of VTB Bank EUROPE plc.

As at 31 December 2008, 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 balance of USD 63,636 thousand 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:

	2008	2007
Inventories and Costs less recognised losses in excess of billings	196,396	209,401
Revenue from planned supply of equipment in the future	73,085	70,000
Property, plant and equipment	56,315	72,278
	325,796	**351,679**

(In thousands of US dollars unless otherwise stated)

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

	2008	2007
Pledges in connection with current borrowings	283,425	264,857
Pledges in connection with bank guarantees received	30,633	-
Pledges in connection with non-current borrowings	11,738	86,822
	325,796	**351,679**

21. DEFERRED TAX ASSETS AND LIABILITIES

The tax effects of temporary differences that give rise to deferred taxation are presented below:

	2008	2007
Assets		
Provisions	37,363	55,750
Inventories	19,806	13,246
Trade and other accounts receivable	8,847	13,948
Trade and other accounts payable	5,632	5,601
Tax losses carried forward	-	19,641
Investments	-	835
	71,648	**109,021**
Liabilities		
Property, plant and equipment	(29,536)	(16,820)
Intangible assets	(5,029)	(5,843)
Other liabilities	(114)	(230)
	(34,679)	**(22,893)**
Less valuation allowance	(29,204)	(86,128)
Balance at the end of the year (Note 10)	**7,765**	**-**

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The analysis of the deferred tax balances (after offset) as they are recorded in the consolidated balance sheet is presented below:

Deferred tax liabilities	21,340	-
Deferred tax assets	(13,575)	-
Balance at the end of the year (Note 10)	**7,765**	**-**

The Group does not recognize a deferred tax liability on undistributed earnings of its subsidiaries as it expects that these earnings will ultimately be recovered in tax-free transactions.

(In thousands of US dollars unless otherwise stated)

22. TRADE AND OTHER PAYABLES

	2008	2007
Advances from customers	1,639,230	753,198
Trade accounts payable	93,712	79,294
Employee related liabilities	34,397	18,100
Progress billings in excess of costs and estimated profits less recognised losses on uncompleted construction contracts	14,715	13,109
Other taxes payable	13,776	6,410
Other current liabilities	11,339	13,898
	1,807,169	**884,009**

At 31 December 2008 advances received from customers on uncompleted construction contracts amounted to USD 1,135,603 thousand (2007: USD 560,119 thousand).

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

	2008	2007
RUR nominated	69,988	46,179
USD nominated	39,894	42,448
EUR nominated	20,164	15,734
Other foreign currency nominated	9,402	5,680
	139,448	**110,041**

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2008 and 2007 based on contractual undiscounted payments:

	2008	2007
less than 90 days	67,765	61,652
91–180 days	11,694	2,603
181–360 days	30,315	45,786
thereafter	29,674	-
	139,448	**110,041**

(In thousands of US dollars unless otherwise stated)

23. PROVISIONS

	Provision for warranties	Provision for onerous contracts	Total
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**
Provisions made during the year	4,259	74,267	78,526
Provisions used during the year	(1,778)	(97,056)	(98,834)
Acquired through business combination (Note 29)	-	5,160	5,160
Translation differences	(903)	(34,217)	(35,120)
Balance at 31 December 2008	**5,199**	**176,826**	**182,025**

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

Provisions for onerous contracts are recognised when the expected revenues are lower than the expected costs to completion based on year end exchange rates. No adjustment has been made for exchange rate variances after the balance sheet date.

24. OTHER NON-CURRENT LIABILITIES

	2008	2007
Government grant	4,026	7,435
Other	473	1,356
	4,499	**8,791**

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 11,165 thousand in its consolidated income statement 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. EARNINGS (LOSS) PER SHARE

The earnings/(loss) per share is calculated by dividing the profit/(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 earnings/(loss) per share is as follows:

	2008	2007
Weighted average number of ordinary shares	8,708,938,708	7,838,264,735

(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**	
	2008	**2007**	**2008**	**2007**
Assets				
Trade and other receivables	68,598	70,916	23,903	16,474
Cash and cash equivalents	109,034	9,343	46,597	3,567
Total assets	**177,632**	**80,259**	**70,500**	**20,041**
Liabilities				
Loans and borrowings	(72,876)	(87,963)	(7,292)	(32,781)
Trade and other payables	(39,894)	(43,340)	(20,164)	(15,734)
Total liabilities	**(112,770)**	**(131,303)**	**(27,456)**	**(48,515)**
Total net position	**64,862**	**(51,044)**	**43,044**	**(28,474)**

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

	USD – impact		**EURO – impact**	
	2008	**2007**	**2008**	**2007**
Profit/(loss)	6,486	(5,104)	4,304	(2,847)

(In thousands of US dollars unless otherwise stated)

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.

	LIBOR – impact		**EURO LIBOR – impact**	
	2008	**2007**	**2008**	**2007**
Profit	729	790	-	293

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 2008 the Group's largest customers (individually exceed 2% of the total balance) represent 74% (2007: 64%) from the total outstanding balance.

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

	Customer location	**2008**	**2007**
CJSC Atomstroyexport	Russia	23,176	14,700
OJSC Technopromexport	Russia	21,895	2,904
NTPC Limited	India	18,416	-
OJSC Boguchanskaya GES	Russia	11,705	-
OJSC Sangtudinskaya GES-1	Tajikistan	8,503	-
Siemens AG Power Generation	Germany	8,470	6,975
Vietnam Machinery Erection Corporation	Vietnam	7,765	7,292
OJSC Mosenergo	Russia	7,138	17,673
NTPC Limited Badarpur Thermal Power Station	India	7,127	-
Sumitomo Corporation	Japan	5,276	4,110
CJSC Energya-Servis	Russia	4,751	-
Constructora Internacional de Infraestructura Sociedad Anonima de Capital Variable	Mexico	3,655	3,655
CJSC ROS postavka	Russia	3,088	-
Electricity of VietNam	Vietnam	2,702	-
OJSC Engineering Company Ziomar	Russia	366	6,343
Ministry of Electricity Directorate General for Energy Production Projects	Iraq	-	7,469
System Consulting Zrt	Hungary	-	5,133
		134,033	**76,254**

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 2008 and 2007 based on contractual payments are presented in Note 22 and below.

(In thousands of US dollars unless otherwise stated)

The following tables show the contractual maturities of interest-bearing financial liabilities (see also Note 19).

	Average interest rate									
2008	**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	11.97%	11.97%	11,971	16,102	1,246	1,246	1,567	2,304	2,931	**37,367**
EUR	CIRR+3.52%	8.64%	1,077	1,432	2,838	1,555	389	-	-	**7,292**
USD	LIBOR+2.3%	4.97%	63,870	-	-	-	-	-	-	**63,870**
Unsecured bank loans:										
RUR	11.25%	11.25%	10,211	-	-	-	-	-	-	**10,211**
USD	LIBOR+2.37%	5.04%	6	4,500	4,500	-	-	-	-	**9,006**
Unsecured loans with other companies										
RUR	-	-	-	1,857	-	-	-	-	-	**1,857**
Finance lease liabilities – RUR	20.03%	20.03%	1,432	-	1,872	-	-	-	-	**3,303**
			88,567	**23,891**	**10,456**	**2,801**	**1,956**	**2,304**	**2,931**	**132,906**

	Average interest rate									
2007	**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	-	10%	-	-	1,837	-	-	-	-	**1,837**
EUR	9%	9%		732	-	-	-	-	-	**732**
USD	-	-	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**

(In thousands 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 15%.

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 BALANCES AND TRANSACTIONS

Transactions with management

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

	2008	2007
Salaries and bonuses	6,961	6,133
Termination benefits	165	7,131
	7,126	**13,264**

Transactions with other related parties

As of 31 December 2008 the largest immediate shareholders of the Group are Highstat Limited (65%) 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.

	2008	2007
Amounts receivable		
Prepayments	96,362	77,547
Trade and other receivables	556	19,240
	96,918	**96,787**
Amounts payable		
Advances from customers	33	24,433
Trade and other payables	9,427	5,654
	9,460	**30,087**

(In thousands of US dollars unless otherwise stated)

	2008	2007
Sales		
Sales of goods	3,989	151,449
Services provided	928	83,009
	4,917	**234,458**
Purchases		
Purchases of goods	90,715	70,236
Purchases of services	11,685	6,798
	102,400	**77,034**

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 2008	Ownership interest 2007
Subsidiaries:				
OJSC Kaluzhsky turbine plant	Production of turbines	Russia	42.72%	-
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%
Enermasch Handels GmbH	Wholesales of spare parts for locomotives	Germany	100.00%	100.00%
Associates:				
NPO CKTI	Research and development	Russia	35.00%	35.00%

29. BUSINESS COMBINATION

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

(In thousands of US dollars unless otherwise stated)

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

Property, plant and equipment (Note 12)	145,111
Intangible assets (Note 13)	1,629
Other non-current assets	949
Inventories	59,476
Trade and other receivables	104,500
Cash and cash equivalents	7,899
Total assets	**319,564**
Borrowings	20,154
Trade and other payables	138,670
Deferred tax liabilities (Note 10)	26,101
Provisions (Note 23)	5,160
Total liabilities	**190,085**
Net assets at the date of acquisition	**129,479**
Less: Minority interest	(79,578)
Group's share of net assets acquired	**49,901**
Add: Goodwill arising on acquisition	3,809
Total cost of acquisition	**53,710**
Less: Cash and cash equivalents acquired	(7,899)
Net cash outflow on acquisition	**45,811**

At the date of acquisition of the controlling interest by the Group, KTZ did not prepare financial statements in accordance with IFRS. Thus, it was not practicable to determine the carrying amounts of the acquired assets and liabilities in accordance with IFRS immediately before the acquisition, and this information was not presented in these consolidated financial statements.

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

In July 2008, the Group acquired additional 28,492 ordinary shares (or 5.51% of total voting shares and 4.22% of total issued shares) of KTZ for cash consideration of USD 5,706 thousand in the course of the obligatory offer made in accordance with the corporate legislation of the Russian Federation. The carrying value of KTZ net assets at the date of increase of ownership was USD 118,867 thousand. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest of USD 4,715 thousand.

Total goodwill resulting from acquisitions of shares of KTZ during 2008 was USD 4,506 thousand (USD 3,733 thousand translated at the exchange rate as of 31 December 2008).

(In thousands of US dollars unless otherwise stated)

30. COMMITMENTS

(i) Capital commitments

At 31 December 2008, the Group was committed to capital expenditure (property, plant and equipment) of approximately USD 39,682 thousand (2007: USD 4,263 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.

31. 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:

	2008	**2007**
Maturity in one year or more		
Third party suppliers	123	129
Maturity in less than one year		
Third party suppliers	-	682,381
	123	**682,510**

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 2008, may amount up to USD 55,757 thousand (2007: 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) 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 31 December 2008 to be approximately USD 2,541 thousand (2007: zero).

(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) Working capital deficiencies

As of 31 December 2008 the Group's current liabilities exceeded its current assets by USD 215,776 thousand (2007: USD 182,171 thousand).

Management efforts to improve Group's liquidity position concentrate primarily on increasing operating cash flows through sales increases, improved margins, contract cost reductions, and refinancing of the existing liabilities. Management believes that the Group's available borrowing facilities and operating cash flows will be sufficient to fund its operations for the next year. Management is of the opinion that the Group will continue as a going concern.

(vii) Volatility in financial markets

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

32. POST BALANCE SHEET EVENTS

On 11 February 2009 the Group acquired 20,304 ordinary shares (or 3.93% of total voting shares and 3.00% of total issued shares) and 70,966 preferred shares (or 10.50% of total issued shares) of KTZ for USD 4,500 thousand.

On 4 March 2009 the Meeting of the shareholders of KTZ approved a decision to issue 160,368 ordinary shares with par value of RUR 1 to the Company by means of a closed subscription.

On 16 March 2009 the Board of directors of the Company decided to dispose the 100% share in the subsidiary Enermasch Handels GmbH (see also Note 28) for a consideration of EURO 100 thousand. Net assets of Enermasch Handels GmbH as of reporting date comprised USD 629 thousand.