OAO Power Machines and Subsidiaries

Consolidated interim condensed financial statements
for the six months ended June 30, 2011

OAO POWER MACHINES AND SUBSIDIARIES

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ZAO KPMG
North-West Regional Centre
Business Centre «Renaissance Plaza»,
69-71A, Marata Street., St. Petersburg,
191119 Russia

Telephone +7 (812) 313 7300
Fax +7 (812) 313 7301
Internet www.kpmg.ru

Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Statements

To the Management Board of OAO Power Machines

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO Power Machines (the "Company") and its subsidiaries (the "Group") as at June 30, 2011 and the related consolidated interim condensed statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended (the "consolidated interim condensed financial statements"). Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.* Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at June 30, 2011 and for the six-month period then ended are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.*

ZAO KPMG

ZAO KPMG
September 2, 2011

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INTERIM CONDENSED INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2011

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

	Note	Six months ended June 30, 2011 (Unaudited)	Six months ended June 30, 2010 (Unaudited)
Revenue	7	866 926	710 795
Cost of sales		(598 680)	(498 424)
Gross profit		**268 246**	**212 371**
Distribution expenses		(33 591)	(34 185)
Administrative expenses		(50 685)	(45 204)
Other taxes and contributions		(4 900)	(4 702)
Other income		1 556	5 890
Other expenses		(7 604)	(14 992)
Profit from operations		**173 022**	**119 178**
Financial income		12 559	7 208
Financial expenses		(7 200)	(9 052)
Net foreign exchange losses		(11 499)	(2 551)
Profit before income tax		**166 882**	**114 783**
Income tax expense		(28 864)	(16 968)
Profit for the period		**138 018**	**97 815**
Attributable to:			
shareholders of OAO Power Machines		134 775	93 427
non-controlling interests		3 243	4 388
		138 018	**97 815**
Weighted average number of shares outstanding during the period		8 708 938 708	8 708 938 708
Basic and diluted earnings per share (US dollars)		0,0158	0,0112

These consolidated interim condensed financial statements were approved by the Management Board on September 2, 2011 and were signed on its behalf by:

Igor Y. Kostin
General Director

Vadim K. Chechnev
Chief Financial Officer

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

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2011

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

	Six months ended June 30, 2011 (Unaudited)	Six months ended June 30, 2010 (Unaudited)
Profit for the period	**138 018**	**97 815**
Other comprehensive income		
Currency translation differences	62 248	(17 145)
Total comprehensive income for the period	**200 266**	**80 670**
Attributable to:		
shareholders of OAO Power Machines	192 127	78 354
non-controlling interests	8 139	2 316
	200 266	**80 670**

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

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2011

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

	Note	June 30, 2011	December 31, 2010
Assets			
Property, plant and equipment		530 477	475 329
Goodwill		4 004	3 689
Other intangible assets		51 120	43 655
Deferred tax assets		47 237	39 886
Trade accounts receivable		98 938	41 808
Other assets		30 897	8 114
Total non-current assets		**762 673**	**612 481**
Inventories	8	220 794	168 614
Amounts due from customers under construction contracts	10	1 120 438	973 995
Trade accounts receivable		241 502	229 823
Advances paid to suppliers		163 671	169 030
Other current assets		41 649	32 843
VAT recoverable		95 602	79 054
Short-term bank deposits		33 794	100 627
Cash and cash equivalents		457 526	521 346
Total current assets		**2 374 976**	**2 275 332**
Total assets		**3 137 649**	**2 887 813**
Equity			
Share capital		11 141	11 141
Additional paid-in capital		400 025	400 025
Foreign currency translation reserve		82 895	25 543
Retained earnings		319 546	184 771
Total equity attributable to the Company's shareholders		**813 607**	**621 480**
Non-controlling interests		65 943	57 804
Total equity		**879 550**	**679 284**
Liabilities			
Debt finance	9	11 243	14 994
Deferred tax liabilities		14 733	11 096
Other liabilities		4 910	2 515
Total non-current liabilities		**30 886**	**28 605**
Debt finance	9	2 375	24 112
Trade accounts payable		155 691	127 310
Amounts due to customers under construction contracts	10	20 865	20 935
Advances received from customers		1 837 711	1 786 165
Other taxes and social security payable		16 415	17 648
Other liabilities		51 375	65 944
Provisions for contingencies	12	142 781	137 810
Total current liabilities		**2 227 213**	**2 179 924**
Total liabilities		**2 258 099**	**2 208 529**
Total equity and liabilities		**3 137 649**	**2 887 813**

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

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2011

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

	Six months ended June 30, 2011 (Unaudited)	Six months ended June 30, 2010 (Unaudited)
Operating activities:		
Profit before financing and taxation	173 022	119 178
Adjustments for:		
Depreciation and amortization	31 163	28 047
Other	(1 711)	3 092
	202 474	**150 317**
Changes in operating assets and liabilities	(232 248)	(153 538)
Cash flows used in operating activities	**(29 774)**	**(3 221)**
Interest paid	(7 200)	(1 935)
Income tax paid	(47 408)	(21 506)
Net cash used in operating activities	**(84 382)**	**(26 662)**
Investing activities:		
Additions to property, plant and equipment and intangible assets	(51 851)	(49 545)
Net cash flows from other investments	53 484	(2 400)
Proceeds from disposal of property, plant and equipment and other assets	165	306
Interest received	10 346	2 881
Net cash from/(used in) investing activities	**12 144**	**(48 758)**
Financing activities:		
Proceeds from borrowings	-	19 056
Repayment of borrowings	(27 586)	(29 252)
Net cash used in financing activities	**(27 586)**	**(10 196)**
Net decrease in cash and cash equivalents	(99 824)	(85 616)
Effect of exchange rates on cash and cash equivalents	36 004	(7 892)
Cash and cash equivalents at 1 January	521 346	323 689
Cash and cash equivalents at 30 June	**457 526**	**230 181**

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

OAO POWER MACHINES AND SUBSIDIARIES

CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2011

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

	Share capital	Additional paid-in capital	Foreign currency translation reserve	Accumulated profit	Total equity attributable to the Company's shareholders	Non-controlling interests	Total equity
Balance at January 1, 2010	**11 141**	**399 877**	**29 058**	**(62 105)**	**377 971**	**50 128**	**428 099**
Profit for the period (unaudited)	-	-	-	93 427	93 427	4 388	97 815
Foreign currency translation differences (unaudited)	-	-	(15 073)	-	(15 073)	(2 072)	(17 145)
Total comprehensive income for the period (unaudited)					78 354	2 316	80 670
Dilution of non-controlling interest (unaudited)	-	148	-	-	148	(148)	-
Balance at June 30, 2010 (unaudited)	**11 141**	**400 025**	**13 985**	**31 322**	**456 473**	**52 296**	**508 769**
Balance at January 1, 2011	**11 141**	**400 025**	**25 543**	**184 771**	**621 480**	**57 804**	**679 284**
Profit for the period (unaudited)	-	-	-	134 775	134 775	3 243	138 018
Foreign currency translation differences (unaudited)	-	-	57 352	-	57 352	4 896	62 248
Total comprehensive income for the period (unaudited)					192 127	8 139	200 266
Balance at June 30, 2011 (unaudited)	**11 141**	**400 025**	**82 895**	**319 546**	**813 607**	**65 943**	**879 550**

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

1. BASIS OF PREPARATION

Statement of compliance

These consolidated interim condensed financial statements of OAO Power Machines (the "Company") and its subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended December 31, 2010.

These consolidated interim condensed financial statements were approved by the Management Board on September 2, 2011.

Estimates

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

In preparing these consolidated interim condensed financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2010.

2. ACCOUNTING POLICIES

The accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended December 31, 2010, except that the Group has adopted those new/revised standards mandatory for financial annual periods beginning on January 1, 2011. The adoption of these pronouncements did not have a significant impact on the Group's consolidated interim condensed financial statements.

3. FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2010.

4. OPERATING SEGMENTS

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

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

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

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

The Management Board assesses the performance of the operating segment based on measures for sales, net profit, segment assets and segment liabilities and other information which is consistent with information in the Group's consolidated interim condensed financial statements.

The segment information as at and for the six-month period ended June 30, 2011 is as follows:

	Six months ended June 30, 2011	Six months ended June 30, 2010
Revenue	866 926	710 795
Profit before income tax	166 882	114 783
	June 30, 2011	**December 31, 2010**
Segment assets	3 137 649	2 887 813
Capital expenditures	51 851	126 356
Segment liabilities	2 258 099	2 208 529

5. INCOME TAX EXPENSE

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period.

6. PROPERTY, PLANT AND EQUIPMENT

During the six-months ended June 30, 2011 the Group acquired assets with a cost of US$ 59.8 million, primarily related to a new plant being constructed by the Group in Metallostroy (St. Petersburg, Russia).

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

7. REVENUE

	Six months ended June 30, 2011	Six months ended June 30, 2010
Income from:		
Construction contract revenue	724 914	489 353
Sales of goods	70 904	183 261
Rendering services	64 465	24 326
Other	6 643	13 855
	866 926	**710 795**

	Six months ended June 30, 2011	Six months ended June 30, 2010
Russia	734 383	571 243
India	55 790	6 695
Europe	45 613	44 135
China and Central Asia	20 518	21 931
Central and South America	6 673	54 015
South-East Asia	841	3 228
Other	3 108	9 548
	866 926	**710 795**

8. INVENTORIES

	June 30, 2011	December 31, 2010
Raw materials and consumables	122 445	87 509
Work in progress	95 094	63 365
Finished goods and goods for resale	68 939	76 609
Supplies	4 819	5 835
	291 297	233 318
Provision for obsolete inventories	(70 503)	(64 704)
	220 794	**168 614**

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

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

The movement in the inventory obsolescence provision was:

	June 30, 2011	June 30, 2010
Opening balance	(64 704)	(62 091)
Change in provision recognized in the income statement	(3 981)	(20 959)
Amounts written off against provisions	3 731	2 839
Foreign exchange differences	(5 549)	2 118
Closing balance	**(70 503)**	**(78 093)**

9. DEBT FINANCE

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

	June 30, 2011	December 31, 2010
Non-current		
Bank loans	11 243	14 887
Finance lease liability	-	107
	11 243	**14 994**
Current		
Bank loans	2 277	23 761
Finance lease liability	98	351
	2 375	**24 112**

These borrowings bear fixed interest rates of between 8.8% and 11.5% per annum.

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

	June 30, 2011	December 31, 2010
Inventories and amounts due from customers under construction contracts	78 314	66 435
Revenue from planned supply of equipment in the future	-	12 727
Property, plant and equipment	49 481	34 384
	127 795	**113 546**

10. CONSTRUCTION CONTRACTS

Contracts in progress at the balance sheet date:

	June 30, 2011	December 31, 2010
Construction costs incurred plus recognized profits and less recognized losses	4 729 553	3 670 067
Less: progress billings	(3 629 980)	(2 717 007)
	1 099 573	**953 060**

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

Recognised and included in the consolidated interim condensed financial statements as amounts due:

	June 30, 2011	December 31, 2010
From customers under construction contracts	1 120 438	973 995
To customers under construction contracts	(20 865)	(20 935)
	1 099 573	**953 060**

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

11. RELATED PARTY BALANCES AND TRANSACTIONS

Parent and ultimate controlling party

There has been no change in the Group's immediate parent company, ultimate parent company or ultimate controlling party since December 31, 2010.

Transactions with key management personnel

No transactions with the key management personnel took place during the six-month period ended June 30, 2011.

Other related party transactions

The Group's related party transactions, which were all with entities under common control, during the six-month period ended June 30, 2011 were as follows:

	June 30, 2011	December 31, 2010
Amounts receivable		
Advances paid to suppliers	11 214	9 625
Trade and other receivables	9 012	128
	20 226	**9 753**
Amounts payable		
Advances received from customers	1 023	944
Trade and other payables	6 918	17 638
	7 941	**18 582**

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

	Six months ended June 30, 2011	Six months ended June 30, 2010
Revenue		
Sales of goods	677	469
Services provided	34	49
	711	**518**
Purchases		
Purchases of goods	49 813	23 045
Purchases of services	8 936	30 276
	58 749	**53 321**

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

12. PROVISIONS FOR CONTINGENCIES

	Provision for warranties	Provision for onerous contracts	Total
Balance at January 1, 2010	**7 316**	**136 067**	**143 383**
Provisions made during the period	1 129	7 227	8 356
Provisions used during the period	(318)	(22 218)	(22 536)
Provision released during the period	-	(2 080)	(2 080)
Translation differences	(258)	(3 544)	(3 802)
Balance at June 30, 2010	**7 869**	**115 452**	**123 321**
Balance at January 1, 2011	**7 696**	**130 114**	**137 810**
Provisions made during the period	1 562	14 152	15 714
Provisions used during the period	(944)	(13 940)	(14 884)
Provision released during the period	-	(7 269)	(7 269)
Translation differences	657	10 753	11 410
Balance at June 30, 2011	**8 971**	**133 810**	**142 781**

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

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

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

Provision for warranties

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

Provision for onerous contracts

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

Provision for litigation

The Group has a number of claims including disputes for contract delays or additional work which have arisen in the ordinary course of business. Contract-related disputes are common to the business of the Group, particularly for large, long-term contracts. Based on the facts and circumstances existing on the date of these consolidated interim condensed financial statements were approved for issuance, as well as historical experience with such claims and litigations, management estimates that possible losses associated with unresolved contract-related disputes at June 30, 2011, may amount up to US$ 11.8 million (2010: US$ 18.9 million). Such contingent liabilities have not been provided as at June 30, 2011 because management believes that it is possible, but not probable, that an outflow of economic resources will be required to settle the obligations.

13. COMMITMENTS AND CONTINGENCIES

Long-term purchase contracts

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

Capital commitments

At the balance sheet date, the Group was committed to capital expenditure of approximately US$ 146.9 million (2010: US$ 132.7 million).

Social commitments

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

Insurance

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

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 and substance-based 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, a 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, late-payment interest and penalties that could be significant.

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.

14. EVENTS AFTER THE REPORTING DATE

Siemens

On July 28, 2011 Highstat Limited signed an agreement to acquire an additional 25% plus one share of OJSC Power Machines from Siemens AG.

Pledges

On July 7, 2011 property, plant and equipment of the Group in the amount of US$ 20.2 million and on July 15, 2011 inventories in the amount of US$ 72.1 million were removed from the pledge.

The Group is not aware of any other material events subsequent to the reporting date which may impact or require disclosure in these consolidated interim condensed financial statements as at and for the six-month period ended June 30, 2011.