Open Joint Stock Company Power Machines and subsidiaries

Interim Consolidated Financial Statements
for the 6 months ended 30 June 2005
(Unaudited)

Contents

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Independent Accountants' Review Report on Consolidated Interim Financial Information

To the Board of Directors of
Open Joint Stock Company Power Machines and subsidiaries

We have reviewed the accompanying consolidated balance sheet of Open Joint Stock Company Power Machines and its subsidiaries (the "Group") as of 30 June 2005 and the related consolidated statements of income, changes in equity and cash flows for the six-month period then ended (the "consolidated interim financial information"). This consolidated interim financial information is the responsibility of the Group's management. Our responsibility is to issue a report on this consolidated interim financial information based on our review.

Except as described in the following two paragraphs, we conducted our review in accordance with the International Standard on Review Engagements 2400. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

The inventory balances of the Group include USD 2,646 thousand of finished goods and work in progress that was produced to customer orders that were subsequently cancelled by the customers (31 December 2004: USD 3,660). Management believes that this inventory may be further used in the production of other equipment or sold to other customers in the future and therefore no impairment loss has been recognized. It was not practicable to extend our procedures sufficiently to satisfy ourselves as to the carrying amount of this inventory and any related effect on the deferred tax balance and deferred tax expense. Our audit report on the consolidated financial statements as of and for the year ended 31 December 2004 dated 5 May 2005 was modified accordingly.

As described in note 2 (e) to the consolidated interim financial information, the Group has not recorded a provision for the expected future loss on a long-term contract because management is in the process of negotiating an increase in the price of this contract, and believes it is probable that the price of the contract will be increased sufficiently to cover the increased costs of production in relation to this contract. It was not practicable to extend our procedures sufficiently to satisfy ourselves that a provision for an onerous contract of USD 8,826 is not necessary as of 30 June 2005, with a corresponding decrease of USD 2,118 in the deferred tax liability (31 December 2004: USD 5,946 and USD 1,427 respectively). Our audit report on the consolidated financial statements as of and for the year ended 31 December 2004 dated 5 May 2005 was modified accordingly.

As described in note 22 to the consolidated interim financial information, the Group breached a covenant under a long-term agreement with a bank. Although the Group received a waiver from that bank for such breach, it was received subsequent to the balance sheet date; in addition, it is probable that the same covenant will be breached again over the next 12 months. The Group has classified the loan as a non-current liability. In our opinion, IAS 1 *Presentation of Financial Statements* requires the loan to be classified as a current liability. If this liability were classified correctly, current liabilities would increase by USD 58,925 (31 December 2004: USD 56,408) with a corresponding decrease in non-current liabilities. Our audit report on the consolidated financial statements as of and for the year ended 31 December 2004 dated 5 May 2005 was modified in this regard.

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The Group has not disclosed the name of its ultimate controlling party. In our opinion, disclosure of this information is required by IAS 24 *Related Party Disclosures*.

Based on our review, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to extend our procedures to the carrying amount of inventory and the provision for onerous contracts as described above, and the effect of the failure to reclassify a loan to current liabilities as described above, and the non-disclosure of the ultimate controlling party as described above, nothing has come to our attention that causes us to believe that the consolidated interim financial information does not present fairly, in all material respects, the financial position of the Group as of 30 June 2005, and the results of its operations and its cash flows for the six-month period then ended in accordance with IAS 34 *Interim Financial Reporting*.

ZAO KPMG
20 October 2005

Interim consolidated income statement

In thousands of US dollars	Note	6 months ended 30 June 2005	6 months ended 30 June 2004 (Restated)
Revenues	5	327,018	282,807
Cost of sales		(239,464)	(218,982)
Gross profit		87,554	63,825
Distribution expenses		(29,681)	(15,570)
Administrative expenses	6	(42,516)	(38,866)
Social costs		(1,073)	(1,691)
Other operating income, net	7	2,194	12,998
Profit from operations		16,478	20,696
Net financing expenses	9	(13,094)	(8,879)
Income/(loss) from associates		5	(16)
Profit before tax		3,389	11,801
Income tax expense	10	(4,416)	(3,734)
Net profit (loss) for the period		(1,027)	8,067
Attributable to:			
Shareholders of the Parent Company		(1,101)	8,216
Minority interest		74	(149)
		(1,027)	8,067
Basic and diluted (loss)/earnings per share	28	(0.00015) USD	0.0011 USD

The interim consolidated financial statements were approved on 20 October 2005 and signed by:

I.P. Klochko
Chief Executive Officer

A.R. Zaytsev
Financial Director

The interim consolidated income statement is to be read in conjunction with the notes to and forming part of the interim consolidated financial statements set out on pages 9 to 36.

Interim consolidated balance sheet

In thousands of US dollars	Note	30 June 2005	31 December 2004 (Restated)
Assets			
Property, plant and equipment	12	240,049	250,061
Intangible assets	13	26,712	27,201
Investments in associates	14	5,803	5,991
Other investments	15	5,740	6,842
Notes receivable available-for-sale		69,903	75,073
Other non-current receivables	16	19,435	26,771
Total non-current assets		367,642	391,939
Inventories	17	89,896	87,495
Income tax receivable		1,550	33
Trade receivables	18	107,143	124,358
Other receivables	19	211,029	174,295
Notes receivable available-for-sale		14,449	14,810
Other investments	15	743	2,173
Cash and cash equivalents	20	38,800	12,933
Total current assets		463,610	416,097
Total assets		831,252	808,036
Equity	21		
Ordinary shares		8,382	8,382
Preference shares		2,181	2,181
Additional paid-in capital		125,280	125,280
Translation reserve		26,406	36,493
Retained earnings		141,880	142,981
Total equity attributable to shareholders of the Parent Company		304,129	315,317
Minority interest		1,064	1,415
Total equity		305,193	316,732
Liabilities			
Loans and borrowings	22	96,167	133,033
Deferred tax liabilities	24	34,215	35,750
Other non-current liabilities	27	32,286	33,239
Total non-current liabilities		162,668	202,022
Loans and borrowings	22	181,700	104,163
Income tax payable		138	22,981
Trade and other payables	25	177,431	157,319
Provisions	26	4,122	4,819
Total current liabilities		363,391	289,282
Total liabilities		526,059	491,304
Total equity and liabilities		831,252	808,036

The interim consolidated balance sheet is to be read in conjunction with the notes to and forming part of the interim consolidated financial statements set out on pages 9 to 36.

Interim consolidated statement of cash flows

In thousands of US dollars	6 months ended 30 June 2005	6 months ended 30 June 2004
Operating activities		
Net profit (loss) for the period	(1,027)	8,067
Adjustments for:		
Depreciation and amortisation	14,281	11,695
Loss/(gain) on disposal of property plant and equipment	1,339	(678)
Gain/(loss) from disposal of investments	288	(753)
Loss from disposal of subsidiaries	1,555	-
Impairment of investments	302	(66)
(Income)/Loss from associates	(5)	16
Interest income	(577)	(5,230)
Interest expense	11,340	12,272
Income tax expense	4,416	3,734
Unrealised foreign exchange gains	4,145	(1,480)
Operating profit before changes in working capital and provisions	36,057	27,577
Increase in inventories	(5,352)	(4,399)
Increase in trade and other receivables	(23,483)	(60,994)
Increase in trade and other payables	26,687	2,903
Cash flows from operations before income taxes and interest paid	33,909	(34,913)
Interest paid	(10,731)	(10,587)
Income tax paid	(29,034)	(42)
Cash flows from operating activities	(5,856)	(45,542)
Investing activities		
Proceeds from disposal of property, plant and equipment	836	1,480
Interest received	577	5,230
Acquisition of property, plant and equipment and intangible assets	(14,532)	(19,272)
Acquisition of investments in associates	-	(10,368)
Disposal of subsidiaries, net of cash disposed of	(83)	
Net change in loans given to third and related parties	958	(2,977)
Net cash flow from other investments	751	6,737
Cash flows from investing activities	(11,493)	(19,170)
Financing activities		
Proceeds from borrowings	186,106	454,029
Repayments of borrowings	(141,801)	(424,738)
Sale of treasury shares	-	28
Cash flows from financing activities	44,305	29,319
Net increase/(decrease) in cash and cash equivalents	26,956	(35,393)
Cash and cash equivalents at the beginning of period	12,933	65,973
Effect of exchange rate fluctuations	(1,089)	1,270
Cash and cash equivalents at the end of period	38,800	31,850

The interim consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the interim consolidated financial statements set out on pages 9 to 36.

Interim consolidated statement of changes in equity

	Attributable to shareholders of the Parent							Minority interest	Total equity
In thousands of US dollars	Ordinary shares	Preference shares	Additional paid-in capital	Treasury shares	Translation reserve	Retained earnings	Total		
Balance at 1 January 2004	7,789	2,181	125,873	(27)	18,132	132,966	286,914	1,284	288,198
Net profit	-	-	-	-	-	8,216	8,216	(149)	8,067
Currency translation differences	-	-	-	-	4,152	-	4,152	20	4,172
Shares issued	593	-	(593)	-	-	-	-	-	-
Sale of treasury shares	-	-	-	27	-	-	27	-	27
Balance at 30 June 2004	8,382	2,181	125,280	-	22,284	141,182	299,309	1,155	300,464
Net profit	-	-	-	-	-	1,799	1,799	348	2,147
Currency translation differences	-	-	-	-	14,209	-	14,209	(88)	14,121
Balance at 31 December 2004	8,382	2,181	125,280	-	36,493	142,981	315,317	1,415	316,732
Net profit	-	-	-	-	-	(1,101)	(1,101)	74	(1,027)
Currency translation differences	-	-	-	-	(10,087)	-	(10,087)	(38)	(10,125)
Disposal of subsidiary	-	-	-	-	-	-	-	(387)	(387)
Balance at 30 June 2005	8,382	2,181	125,280	-	26,406	141,880	304,129	1,064	305,193

The interim consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the interim consolidated financial statements set out on pages 9 to 36.

Notes to the interim consolidated financial statements

1. Background

(a) Organisation and operations

The interim consolidated financial statements of the Open Joint Stock Company Power Machines comprise the parent company OJSC Power Machines ("the Company" or "the Parent Company") and its subsidiaries ("the Group"). The Parent Company is an open joint stock (public) company as defined in the Civil Code of the Russian Federation. The Parent Company is domiciled in the Russian Federation.

The Parent 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 power and automation technologies including production of turbines, generators and other energy generating equipment at plants located in St. Petersburg, Russia. The plants Leningradskiy Metalicheskiy Zavod, Electrosila and Zavod Turbinich Lopatok are branches of the Parent Company. The products are sold in the Russian Federation and abroad. The Group participates in international and national tenders for the supply of energy generating equipment, produces equipment and further places orders for production of the equipment with other subcontractors.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets. The accompanying interim consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2. Basis of Preparation

(a) Statement of compliance

The Group maintains its accounting records in accordance with the legislative requirements of the countries in which the individual entities are located (the Russian Federation, Ireland, Germany, Columbia and Czech Republic). The accompanying interim consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards ("IFRS"), as promulgated by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

The interim consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, investments held for trading and available-for-sale are stated at fair value; certain items of property, plant and equipment were revalued to determine deemed cost as part of the adoption of IFRSs as at 1 January 2002; and the carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation. Russia ceased to be hyperinflationary for IFRS purposes as of 1 January 2003.

2. Basis of Preparation continued

(c) Functional and Presentation Currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Parent Company's functional currency because it reflects the economic substance of the underlying events and circumstances of the Parent Company.

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

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.

(d) Going concern

The accompanying interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment (refer note 1(b)). The accompanying interim consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

(e) 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 interim consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Contract-related reserves

Management of the Group is in the process of negotiating an increase in the price of one of its long-term contracts. Negotiations have been held with the customer and the customer has agreed to negotiate the increase in the price of the contract, with the amount of the increase been subject of further negotiations. Management believes it is probable that the price of the contract will be increased sufficiently in order to cover the increased costs of production in relation to this contract. If the price of the contract is not increased as anticipated the Group will incur a future loss under the contract in the amount of USD 8,826 thousand for which no provision has been created as at the reporting date.

2. Basis of Preparation continued

(ii) Long-term contracts

The Group has cancelled the contract with a company that acted as an intermediary on the supply of equipment to the final customer because of the failure of the intermediary company to meet some of the significant terms of the contract. Previously revenue under the contract was recognized using the stage of completion method. Management believes that a direct contract will be concluded with the customer or alternatively that the inventory produced for this contract will be used in the fulfillment of other contracts having profitability not less than the initial profitability of the cancelled contract. As at 30 June 2005 part of the inventory produced for the cancelled contract was planned to be used for another existing contract with similar profitability without substantial modification. The profit recognized using the stage of completion method up to 30 June 2005 for produced inventory for which there is no currently signed contract amounted to USD 5,500 thousand. If the Group is unable to conclude the contract for this portion of already produced equipment it would have to record this equipment at cost subject to an impairment in inventory, thereby creating a provision for income recognized to date in the amount of USD 5,500 thousand.

The Group has recognized the revenue for one of its long-term contracts based on a price that includes an incentive payment that per the initial contract had to be withheld by the Ministry of Finance of Russia. Even though a confirmation has been received from the Ministry of Finance that the incentive payment will not be withheld but paid to the Group, no agreement for the receipt of this incentive payment has been signed with the Ministry of Finance. The management of the Group assesses the probability of signing the appropriate agreement to be high since signing the agreement is simply a formality. The effect of inclusion of this incentive payment into the price of the contract caused an increase in the cumulative revenue recognized up to 30 June 2005 in the amount of USD 7,784 thousand.

(iii) Provision for slow-moving inventories

In the six months ended 30 June 2005 the Group released a provision for slow-moving stock. The amount of the release was USD 8,216 thousand and was a result of the fact that in 2005 the Group has improved the accounting system in relation to inventories aging. These improvements proved that the management's estimate with regard to the provision for slow-moving stock made in previous periods was excessively prudent. Based on the information available supported by the current accounting system the management of the Group believes that the current provision for inventories reasonably reflects the net realizable value of slow-moving inventories.

3. Significant accounting policies

The accounting policies have been applied consistently by the Group and are consistent with those used in the consolidated financial statements for the year ended 31 December 2004, except for changes resulting from the amendments to IFRSs. The Group adopted the revised versions of IFRSs that were effective for accounting periods beginning on 1 January 2005. The changes to the Group's accounting policies and their effect on the interim consolidated financial statements are described in note 3 (a) of the Significant accounting policies section below. The comparative figures for 2004 have been adjusted or extended to conform to changes in presentation in the 2005 financial statements as required by the amended IFRSs.

(a) Changes in Accounting Policies

As of 1 January 2005, the Group adopted all of the new and revised Standards and interpretations adopted by the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005.

Significant changes in accounting policies as they relate to Group's financial position, results of its operations and its cash flows, as presented in these interim consolidated financial statements, are summarised as follows:

Application of IAS 1 "Presentation of Financial Statements" (revised 2003) has affected the presentation of minority interest, and has resulted in increased disclosures, including disclosure of critical accounting estimates and judgements in applying accounting policies. As a result of the change in presentation of minority interest profit or loss attributable to minority interest and profit or loss attributable to shareholders of the Parent Company are presented as allocations of profit or loss, not as items of income or expense. In consolidated balance sheet, minority interest is presented within equity rather than a separate line between equity and liabilities.

Application of IAS 24 "Related Party Disclosures" (revised 2003) has resulted in increased disclosures in respect of related party transactions.

There was no impact on opening retained earnings as at 1 January 2004 from the adoption of any of the above-mentioned standards.

(b) 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 interim consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(c) Associates

Associates are those enterprises in which the Group has significant influence, but does not have control over the financial and operating policies. The interim consolidated financial statements include the Group's share of the total recognised gains and losses of associates accounted for on an equity accounting basis, 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.

3. Significant accounting policies continued

(d) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the interim 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.

(e) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currency of each enterprise in the Group at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the income statement.

Where necessary, the assets and liabilities of Group enterprises are translated into USD at the exchange rate at the end of the year. Revenues and expenses are translated into USD using rates approximating exchange rates at the dates of the transactions. The resulting exchange difference is recorded directly in equity in the foreign currency translation reserve.

The closing rate of exchange effective at 30 June 2005 and 31 December 2004 was 1 USD to 28.67 Roubles and 1 USD to 27.75 Roubles, respectively.

(f) Property, plant and equipment

(i) Owned assets

Property, plant and equipment is stated at cost or deemed 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"), adjusted for impairment.

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.

(ii) 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 3 (l)).

(iii) 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.

3. Significant accounting policies continued

(iv) 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 of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

■ buildings	70-90 years
■ machinery and equipment	25-30 years
■ transportation equipment	15-18 years
■ other property and equipment	8-28 years

(g) Intangible assets

(i) 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.

(ii) 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 accounting policy 3 (l)). Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iii) 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	5-20 years

3. Significant accounting policies continued

(h) Investments

Investments are recognised (derecognised) when the Group obtains (loses) control over the contractual rights inherent in that asset.

Except as outlined below, investments are accounted for as follows:

- Investments held for trading are stated at fair value, with any resultant gain or loss recognised in the income statement.
- Investments held-to-maturity are stated initially at cost. Subsequent to initial recognition they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period to maturity on an effective interest basis.
- Other investments are classified as available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity.

The fair value of investments held for trading and available-for-sale is their quoted bid price at the balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

(i) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (refer accounting policy 3 (l)) except for receivables available for sale that are stated at fair value.

Receivables that present retentions under long-term contracts are recognized as non-current assets where appropriate.

Costs and earnings in excess of billings under uncompleted long-term contracts are presented as receivables. Advances received under such contracts are deducted therefrom.

(j) 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 a specific identification of individual costs 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.

(k) Cash and cash equivalents

Cash and cash equivalents comprises cash balances, call deposits and liquid bank promissory notes. 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 in the statement of cash flows.

(l) Impairment

The carrying amounts of the Group's assets, other than inventories (refer accounting policy 3 (j)) and deferred tax assets (refer accounting policy 3 (u)), 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.

3. Significant accounting policies continued

(i) 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.

(ii) 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.

(m) Share capital

(i) Preference share capital

Preference share capital, which is non-redeemable and non-cumulative, is classified as equity.

(ii) Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity.

(iii) Dividends

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

(n) Loans and borrowings

Loans and borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

(o) Employee benefits

The Group pays into the Russian Federation State Pension Fund a percentage of each employee's wage based on a scale as specified in, and required by the Russian Tax Code. These amounts are expensed when they are incurred.

3. Significant accounting policies continued

(p) 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.

(i) 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.

(ii) 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.

(q) Trade and other payables

Trade and other payables are stated at their cost.

(r) Government grants

Government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. 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 included in Other Liabilities as deferred income and are recognised in the income statement as revenue on a systematic basis over the useful life of the related asset.

(s) Revenue

(i) Goods sold and services rendered

Revenues other than from construction contracts is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenues from long-term construction and service contracts are recognised under the stage of completion method when the outcome of a construction contract can be estimated reliably. Until that time contract revenue is recognized to the extent of contract costs incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately as a provision for onerous contracts.

No revenue is recognised if there are significant uncertainties with regard to recovery of the consideration due, associated costs or the possible return of goods.

(ii) Rental income

Rental income from property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income to be received.

3. Significant accounting policies continued

(t) Expenses

(i) 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.

(ii) 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.

(iii) Net financing costs

Net financing costs comprise interest on borrowings, interest income, dividend income, results of revaluation to fair value of held for trading assets and impairment losses and gains and losses on the disposals of available-for-sale investments and foreign exchange gains and losses.

Interest is recognised as it accrues, 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.

(u) Income tax

Income tax for the year comprises 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 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.

(v) Segment reporting

The Group manufactures energy generating equipment, buys energy generating equipment from subcontractors and sells both types of energy generating equipment to final customers or intermediaries under the same contracts within the framework of turn-key projects. The revenues, results and assets attributable to these activities, which have similar risks and returns, comprise substantially all of the Group's revenues, results and assets. Therefore no separate information in respect of business segments is presented.

The Group's manufacturing activities are in Russia and substantially all of its revenues are derived from supplies to Russian market and export to the markets having similar risks and returns. Therefore no geographical segment information is presented.

3. Significant accounting policies continued

(w) Comparative information

During the current period the Group made reclassifications to certain comparative balances in the interim consolidated financial statements with respect to:

- Expenses paid for bank guarantees were reclassified into net financing expenses in the amount of USD 2,361 thousand (USD 559 thousand from cost of sales; USD 1,221 thousand from distribution expenses; and USD 581 thousand from administrative expenses). The Group has made a decision that the expenses paid for bank guarantees, which are spread over the period of the underlying guarantees, represent financing expenses as these expenses by nature are connected with the finance rather than operating activities of the Group.
- A portion of deferred expenses was reclassified into intangible assets in the amount of USD 825 thousand. Such a reclassification is required to properly classify the expenses in accordance with their nature.
- A portion of advances from customers was reclassified into advance payments received related to uncompleted contracts in the amount of USD 61,591 thousand. Previously the advances were recorded in liabilities as the status of contracts under which the advances were received were thought to be long-term contracts. As at period end the advances under these contracts are recorded as advances received under long-term contracts, and the advances received under the same contracts as at 31 December 2004 were reclassified to advances received under long term contracts for comparative purposes.

(x) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective and have not been applied in preparing these interim consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations:

IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group's financial instruments.

Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's capital.

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option*, which is effective for annual periods beginning on or after 1 January 2006. The amendment restricts the designation of financial instruments as "at fair value through profit or loss".

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts – Financial Guarantee Contracts*, which is effective for annual periods beginning on or after 1 January 2006. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition.

IFRIC 4 *Determining whether an Arrangement contains a Lease*, which is effective for annual periods beginning on or after 1 January 2006. The Interpretation requires certain arrangements to be accounted for as a lease even if they are not in the legal form of a lease.

The Group is still analyzing the impact of these new pronouncements, which will not be adopted until their respective effective dates.

4. Formation and disposals of subsidiaries

In May 2005 the Group disposed of its investment in Energomachimpex. The disposal of subsidiary resulted in the loss amounting to USD 1,555 thousand.

The disposal of the subsidiary had the following effect on the Group's assets and liabilities at the date of disposal:

In thousands of US dollars	**Carrying amount at date of disposal**
Non-current assets	
Property, plant and equipment	9
Intangible assets	2
Current assets	
Investments	96
Inventories	571
Trade and other receivables	3,018
Cash and cash equivalents	181
Current liabilities	
Trade and other payables	1,924
Net identifiable assets and liabilities	1,953
Minority Interest	390
Net identifiable assets and liabilities disposed	1,563
Consideration received	98
Cash disposed of	(181)
Net cash outflow	(83)

In 6 months ended 30 June 2005 the Group has closed down ZAO LMZ Invest. There was no effect on interim consolidated financial statements of the Group from this operation as there were no assets and liabilities in ZAO LMZ Invest as at the date of close down.

The Group has set up a new entity Power Machines de Mexico for the purpose of servicing contracts in Mexico.

5. Revenues

In thousands of US dollars	**6 months ended 30 June 2005**	**6 months ended 30 June 2004 (Restated)**
Energy generating and other equipment	316,263	266,470
Sales of spare parts	10,755	16,337
	327,018	282,807

6. Administrative expenses

In thousands of US dollars	6 months ended 30 June 2005	6 months ended 30 June 2004 (Restated)
Wages, salaries and related taxes	23,954	22,395
Depreciation	3,253	3,289
Insurance	2,802	2,856
Taxes other than income tax	2,407	1,972
Bank charges	1,463	1,044
Amortisation of intangibles	701	191
Travel expenses	506	864
Materials	461	1,031
Consulting	291	938
Penalties	(33)	23
Other administrative expenses	6,711	4,263
	42,516	38,866

7. Other operating income, net

In thousands of US dollars	6 months ended 30 June 2005	6 months ended 30 June 2004
Net loss/(gain) on sale of investments	288	(753)
Decrease in accounts receivable provision	(122)	(6,943)
Decrease in provision for inventories	(5,260)	(6,531)
Net loss/(gain) on disposal of property, plant and equipment	1,339	(678)
Net loss/(gain) on disposal of other assets	(1,353)	15
Increase/(Decrease) in provision for onerous contracts	791	(1,030)
Increase/(Decrease) in provision for warranty expenses	166	2,903
Net loss on disposal of subsidiary	1,555	-
Other operating expenses	402	19
	(2,194)	(12,998)

8. Personnel expenses

In thousands of US dollars	6 months ended 30 June 2005	6 months ended 30 June 2004
Wages, salaries and related taxes included in:		
cost of sales	36,661	28,148
distribution costs	3,768	3,508
administrative expenses	23,954	22,395
	64,383	54,051

The average number of employees during the 6 months ended 30 June 2005 was 13,844 (12 months ended 31 December 2004: 13,828).

9. Net financing expenses

In thousands of US dollars	6 months ended 30 June 2005	6 months ended 30 June 2004 (Restated)
Interest expense	11,340	12,272
Interest income	(577)	(5,230)
Net foreign exchange gain	(2,092)	(460)
Bank guarantee expenses	4,121	2,361
Impairment loss on investments available for sale	302	(64)
	13,094	8,879

10. Income tax expense

In thousands of US dollars	6 months ended 30 June 2005	6 months ended 30 June 2004
Current tax expense		
Current year expense	451	381
Under provided in prior years	4,359	-
	4,810	381
Deferred tax expense		
Origination and reversal of temporary differences	(394)	3,353
	4,416	3,734

The Group's applicable tax rate is the corporate income tax rate of 24% (2004: 24%) and 24% for measuring deferred taxes (2004: 24%).

Reconciliation of effective tax rate

In thousands of US dollars		6 months ended 30 June 2005		6 months ended 30 June 2004
Profit before tax		3,389		11,801
Income tax using corporate tax rate	24%	813	24%	2,832
Non-deductible expenses	144%	4,902	13%	1,489
Non-taxable income	(38%)	(1,299)	(5%)	(587)
	130%	4,416	32%	3,734

In 2005 the Group reassessed its calculation of current taxes in relation to long-term contracts, as its assessment of the probable tax treatment changed. This resulted in USD 4,359 thousand being transferred from deferred (where the amount was previously recognized) to the current tax in the current period.

11. Construction contracts

The revenues and gross margin recognized on long-term contracts amounted to:

In thousands of US dollars	6 months ended 30 June 2005	6 months ended 30 June 2004
Contract revenue	229,218	124,929
Contract costs	(172,770)	(87,431)
Gross profit	56,448	37,498

12. Property, plant and equipment

In thousands of US dollars	Land and Buildings	Machinery and equipment	Transpor-tation equipment	Other	Assets under construction	Total
Cost / deemed cost						
Balance at 1 January 2005	352,877	751,510	15,838	37,166	13,165	1,170,556
Additions	2,059	6,341	359	1,989	3,408	14,156
Transfers	8	1,929	193	41	(2,171)	-
Disposals	(3,438)	(6,968)	(403)	(428)	(513)	(11,750)
Translation effect	(11,391)	(24,159)	(529)	(1,265)	(835)	(38,179)
Balance at 30 June 2005	340,115	728,653	15,458	37,503	13,054	1,134,783
Depreciation						
Balance at 1 January 2005	(281,824)	(604,992)	(12,887)	(20,792)	-	(920,495)
Charge for the year	(1,058)	(9,992)	(474)	(2,056)	-	(13,580)
Disposals	2,948	5,934	382	312	-	9,576
Translation effect	8,993	19,595	475	702	-	29,765
Balance at 30 June 2005	(270,941)	(589,455)	(12,504)	(21,834)	-	(894,734)
Carrying amount						
At 1 January 2005	71,053	146,518	2,951	16,374	13,165	250,061
At 30 June 2005	69,174	139,198	2,954	15,669	13,054	240,049

Leased machinery

The Group leases production equipment under a number of finance lease agreements. As at 30 June 2005 the net carrying amount of leased machinery and equipment was USD 10,853 thousand (31 December 2004: USD 12,095 thousand).

13. Intangible assets

In thousands of US dollars	Development projects Completed	Development projects In process	Other intangible assets	Total
Cost				
Balance at 1 January 2005 (Restated)	2,377	20,738	6,408	29,523
Additions	165	694	242	1,101
Transfers	88	(88)	-	-
Disposals	-	-	(2)	(2)
Translation effect	(84)	(682)	(213)	(979)
Balance at 30 June 2005	2,546	20,662	6,435	29,643
Amortisation				
Balance at 1 January 2005 (Restated)	(962)	-	(1,360)	(2,322)
Amortisation for the year	(205)	-	(496)	(701)
Disposals	-	-	-	-
Translation effect	36	-	56	92
Balance at 30 June 2005	(1,131)	-	(1,800)	(2,931)
Carrying amount				
As at 1 January 2005 (Restated)	1,415	20,738	5,048	27,201
As at 30 June 2005	1,415	20,662	4,635	26,712

14. Investments in associates

The Group has the following investments in associates:

	Country of incorporation	Ownership 30 June 2005	Ownership 31 December 2004	Voting interest 30 June 2005	Voting interest 31 December 2004
ZAO Interplast	Russia	50%	50%	50%	50%
NPO CKTI	Russia	35%	35%	35%	35%

In thousands of US dollars	30 June 2005	31 December 2004
ZAO Interplast	85	88
NPO CKTI	5,718	5,903
	5,803	5,991

15. Other investments

In thousands of US dollars	30 June 2005	31 December 2004
Non-current investments		
Investments available-for-sale	5,723	6,812
Debt securities held to maturity	10	23
Loans given	7	7
	5,740	6,842
Current investments		
Debt securities held to maturity	569	808
Investments available-for-sale	-	220
Loans given	174	1,145
	743	2,173

Available-for-sale investments stated at cost comprise unquoted equity securities in the banking industry. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty of future cash flows in this industry. However, management performed a review of the recoverable amount of these investments and believes it unlikely that the fair value would differ significantly from the carrying amount.

16. Other non-current receivables

In thousands of US dollars	30 June 2005	31 December 2004
Trade accounts receivable	19,186	26,055
Notes receivable	249	716
	19,435	26,771

At 30 June 2005 trade accounts receivable included contractual retention amounts billed to customers amounting to USD 11,404 thousand (31 December 2004: USD 11,649 thousand).

17. Inventories

In thousands of US dollars	30 June 2005	31 December 2004
Work in progress	36,141	35,478
Raw materials and consumables	40,743	44,203
Finished goods and goods for resale	29,954	25,176
Supplies	5,219	4,914
Other inventories	-	571
Provision for obsolete inventory	(22,161)	(22,847)
	89,896	87,495

18. Trade receivables

In thousands of US dollars	30 June 2005	31 December 2004 (Restated)
Trade accounts receivable	93,931	77,031
Notes receivable	632	603
Less provision for doubtful debts	(1,447)	(2,608)
	93,116	75,026
Costs and earnings in excess of billings on uncompleted contracts	274,860	246,443
Advance payments received related to uncompleted contracts	(260,833)	(197,111)
	14,027	49,332
	107,143	124,358

Costs and earnings in excess of billings on uncompleted contracts represents revenue earned and recognised under the stage of completion method which has not been billed.

At 30 June 2005 trade accounts receivable included contractual retention amounts billed to customers amounting to USD 932 thousand (31 December 2004: USD 744 thousand).

19. Other receivables

In thousands of US dollars	30 June 2005	31 December 2004 (Restated)
Prepayments	76,829	75,651
VAT receivable	58,245	43,302
Deferred expenses	64,923	36,645
Restricted cash	584	2,386
Receivables from employees	1,566	812
Other receivables	8,882	15,499
	211,029	174,295

20. Cash and cash equivalents

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

In thousands of US dollars	30 June 2005	31 December 2004
Rouble bank accounts	6,480	5,604
Foreign currency bank accounts	7,869	6,263
Other rouble denominated cash equivalents	1,249	803
Foreign currency bank deposits	22,145	-
Rouble bank deposits	1,057	263
	38,800	12,933

21. Equity

Share capital and share premium

In shares	**Ordinary shares**		**Non-redeemable preference shares**	
	30 June 2005	**31 December 2004**	**30 June 2005**	**31 December 2004**
On issue at opening balance	6,170,912,708	5,362,500,000	1,046,026,000	1,050,000,000
Issuance	-	811,462,708	-	-
Repurchased	-	(3,050,000)	-	(3,974,000)
On issue at closing balance	6,170,912,708	6,170,912,708	1,046,026,000	1,046,026,000

Share capital

As at the balance sheet date, the authorised share capital comprised 9,359,450,000 ordinary shares (31 December 2004: 9,359,450,000) and 1,046,026,000 non redeemable preference shares (31 December 2004: 1,046,026,000) of which 6,170,912,708 ordinary shares (31 December 2004: 6,170,912,708) and 1,046,026,000 preference shares (31 December 2004: 1,046,026,000) were issued and paid. All shares have a par value of RUR 0.01 (31 December 2004: RUR 0.01). All shares rank equally with respect to the Group's residual assets, except that preference shareholders participate only to the extent of the nominal value of the shares adjusted for any dividends in arrears.

Additional paid-in capital

Contributions to additional paid-in capital arose from the formation of the Group in 2002 and 2003 from the excess of the fair value over the 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.

Translation reserve

Translation reserve includes the currency translation differences arising from the translation of these interim consolidated financial statements from the functional to the presentation currency.

Dividends

Holders of non-redeemable preference shares are entitled to receive a fixed dividend amounting to 200% of the nominal value of the preference shares. According to legislation in the Russian Federation, non cumulative preference shareholders have the same voting right as ordinary shareholder in the event of default on full payment of declared dividends to preference shareholders only until next shareholders’ meeting.

Dividends payable are limited to the maximum retained earnings of the Group as determined in accordance with the legislation of the Russian Federation. As at the balance sheet date reserves available for distribution in accordance with Russian legislation amounted to USD 187,954 thousand.

As at the balance sheet date the Board of Directors had not recommended the payment of dividends.

Voting rights of shareholders

The holders of fully paid ordinary shares are entitled to one vote per share at the annual and general shareholder meetings of the Group. Shareholders who own fully paid preference shares shall ordinarily participate in the general meeting of shareholders with the right to vote only on issues of reorganisation or liquidation of the Company, and issues concerning amendments to the Parent company charter that would restrict their rights.

22. Loans and borrowings

In thousands of US dollars	Effective interest rate	30 June 2005	Effective interest rate	31 December 2004
Current loans and borrowings				
Secured loans: - RUR, fixed	10%	44,580	10%	40,303
- USD, fixed & variable	-	-	10%	467
- EURO, fixed & variable	6%	2	6%	314
Current portion of secured loans:				
- RUR, fixed	11%	44	-	-
- USD, variable	8%	29,635	5%	35,442
- EURO, fixed	7%	1,879	7%	2,126
- CHF, variable	-	-	6%	618
Current portion of unsecured loans:				
- USD, variable	8%	50,050	6%	15,000
Current portion of Loan from Ministry of Finance,USD, fixed	3%	2,011	3%	731
Unsecured loans: - RUR, fixed	10%	34,859	-	-
- USD, fixed	7%	15,400	9%	4,951
Current portion of finance lease liabilities	30%	3,240	30%	4,211
		181,700		104,163
Non-current loans and borrowings				
Secured loans: - RUR, fixed	11%	561	11%	18,019
- USD, fixed & variable	7%	78,781	6%	64,693
- EURO, fixed	7%	4,636	7%	6,309
Unsecured loans: - RUR, fixed	13%	2,504	14%	1,740
- USD, variable	-	-	6%	30,004
Loan from Ministry of Finance, USD,fixed	3%	8,748	3%	10,029
Non-current finance lease liabilities	30%	937	30%	2,239
		96,167		133,033

For variable rate loans an average contractual rates range between LIBOR plus 3.5-3.75%.

Non-current debt repayment schedule
Presented below is the debt repayment schedule for non-current debts outstanding at 30 June 2005 (other than finance lease liabilities (see below)).

In thousands of US dollars	Total	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
Secured bank loans							
- RUR, fixed	605	44	561	-	-	-	-
- USD, fixed & variable	108,416	29,635	54,175	10,726	5,048	5,048	3,784
- EUR, fixed	6,515	1,879	1,613	1,347	1,117	559	-
Unsecured loans							
- RUR, fixed	2,504	-	1,472	-	1,032	-	-
- USD, variable	50,050	50,050	-	-	-	-	-
Loan from Ministry of Finance, USD	10,759	2,011	604	1,338	1,605	1,882	3,319
	178,849	83,619	58,425	13,411	8,802	7,489	7,103

22. Loans and borrowings continued

During the 12 months ended 31 December 2004 the Group obtained a loan from the EBRD. The outstanding balance as at the balance sheet date is USD 61,448 thousand. Covenants to the loan agreement require the Group to maintain certain financial ratios, limit capital expenditure, and restrict the amount of outstanding payables related to the acquisition of fixed assets. The Group is restricted from performing mergers, acquisitions, reorganizations and consolidations without the prior written consent of the EBRD. As at 30 June 2005 the Group has not complied with one of the financial ratios required by the covenants, hence EBRD may require earlier settlement of the outstanding amount of the loan, however the Group received a waiver from EBRD for such breach, which was received subsequent to the balance sheet date.

During the 12 months ended 31 December 2004 the Group obtained a loan from HSBC. The outstanding balance as at the balance sheet date is USD 30,000 thousand. Covenants to the loan agreement require the Group to maintain certain financial ratios; also the covenants restrict the Group from obtaining a new secured loan which requires pledges in the amount exceeding the level of pledged assets as at the date of obtaining the loan from HSBC. The covenants to the loan agreement restrict the Group from making dividends payments during the period of the loan. As at 30 June 2005 the Group has not complied with three of the financial ratios required by the covenants, hence HSBC may require earlier settlement of the outstanding amount of the loan.

Management of the Group believes that there is a low probability that the banks will demand earlier settlements of the loans solely on the basis of violation of these ratios. Nevertheless management of the Group plans to negotiate with the banks amendments to existing contract that would resolve the issue of following the covenants imposed by the banks. The loans have been classified either as current or non current based on initially agreed with the bank repayment schedule.

Finance lease liabilities repayment schedule

Finance lease liabilities are payable as follows:

	30 June 2005			**31 December 2004**		
In thousands of US dollars	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	3,837	597	3,240	5,420	1,209	4,211
Between one and five years	1,089	152	937	2,692	453	2,239
	4,926	749	4,177	8,112	1,662	6,450

23. Pledges provided by the Group

Companies within the Group are subject to the following pledges of assets:

In thousands of US dollars	**30 June 2005**	**31 December 2004**
Property, plant and equipment	47,930	41,325
Inventories and costs and earnings in excess of billings on uncompleted contracts	146,490	113,023
Notes receivable, current	884	-
Notes receivable, non-current and available for sale	61,008	43,569
Cash and cash equivalents	2,898	2,865
Revenue from planned supply of equipment in the future	35,000	59,708
	294,210	260,490

23. Pledges provided by the Group continued

The distribution of the assets pledged of the Group is as follows:

In thousands of US dollars	30 June 2005	31 December 2004
Current loans and borrowings		
Pledges provided for the debt of the Group	111,250	84,960
Non-current loans and borrowings		
Pledges provided for the debt of the Group	176,550	168,907
Pledges provided for the debt of subcontractors	6,410	6,623
	294,210	260,490

24. Deferred tax liabilities

Deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of US dollars	30 June 2005	31 Dec 2004	30 June 2005	31 Dec 2004	30 June 2005	31 Dec 2004
Cash and cash equivalents	-	(16)	-	-	-	(16)
Property, plant and equipment	-	-	24,180	24,039	24,180	24,039
Intangible assets	-	-	1,703	2,682	1,703	2,682
Other investments	(3,996)	(3,326)	-	-	(3,996)	(3,326)
Inventories	(5,174)	(28,706)	-	-	(5,174)	(28,706)
Trade and other accounts receivable	-	-	16,134	41,515	16,134	41,515
Trade and other accounts payable	-	-	2,006	852	2,006	852
Loans and borrowings	(638)	(1,290)	-	-	(638)	(1,290)
Tax (assets)/liabilities	(9,808)	(33,338)	44,023	69,088	34,215	35,750

During the period USD 394 thousand of the movement in the deferred tax liability was recognized in the income statement, and USD 1,141 thousand represents foreign exchange difference recognized in equity.

25. Trade and other payables

In thousands of US dollars	30 June 2005	31 December 2004 (Restated)
Advances from customers	47,095	46,128
Trade accounts payable	95,208	72,084
Other taxes payable	11,256	15,032
Employee related liabilities	11,376	11,826
Deferred income	1,441	125
Interest payable	1,161	586
Accrued liabilities	-	183
Other current liabilities	9,894	11,355
	177,431	157,319

26. Provisions

In thousands of US dollars	Provision for warranties	Provision for onerous contracts	**Total**
Balance at 1 January 2005	4,252	567	4,819
Provisions made during the year	166	791	957
Provisions used during the year	(1,513)	-	(1,513)
Exchange differences	(103)	(38)	(141)
Balance at 30 June 2005	2,802	1,320	4,122

Provision for warranties

The Group gives warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of USD 2,802 thousand has been recognized at 30 June 2005 (31 December 2004: USD 4,252 thousand) for expected warranty claims based on past experience of the level of repairs and returns. It is expected that USD 2,802 thousand will be used during less than one year after 30 June 2005.

Provision for onerous contracts

Provisions for onerous contracts are recognised when the expected revenues are lower than the expected costs to completion. It is expected that USD 1,320 thousand will be used during less than one year after 30 June 2005.

27. Other non-current liabilities

In thousands of US dollars	**30 June 2005**	**31 December 2004**
Trade accounts payable	20,785	22,436
Government grant	11,501	10,803
	32,286	33,239

The Company was awarded a government grant of USD 15,278 thousand for the development of technology to produce gas-steam turbines. As at the balance sheet date the Company had received USD 11,501 thousand of the government grant and recorded it as deferred income in other non current liabilities. The amount of deferred income will be amortised over the same period as the related development costs will be amortised.

28. Earnings per share

Earnings per share is calculated by dividing the profit attributable to ordinary and preference shares by the weighted average number of ordinary and preference shares outstanding during the year. The Group has no dilutive potential ordinary shares. The Group did not pay dividends to ordinary or preference shareholders in the current or prior period. The following is a reconciliation of the weighted average number of shares:

In thousands of shares	**6 months ended 30 June 2005**	**6 months ended 30 June 2004**
Issued shares at 1 January	7,216,938,708	6,412,500,000
Effect of shares issued in January 2004	-	811,462,708
Effect of repurchased shares in January 2004	-	(7,024,000)
Weighted average number of shares at 30 June	7,216,938,708	7,216,938,708

29. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Group does not use derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates.

Credit risk
Financial instruments that potentially subject the Group to significant credit risk consist primarily of accounts receivable. Credit evaluations are performed for all banks in which the Group holds deposits, and all customers requiring credit over a certain amount. The Group's policy is to obtain collateral in respect of financial assets in the form of government guarantees or letters of credit where possible. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

As of the balance sheet date the Group had USD 102,403 thousand of notes and trades receivable from one significant customer (31 December 2004: USD 113,811 thousand). The recoverability of these receivables is secured by a guarantee of the Indian Government.

Interest rate risk
Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of taking new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Foreign currency risk
The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the respective Group entities. The currency giving rise to this risk is primarily USD. Management does not hedge the Group's exposure to foreign currency risk.

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

Notes receivable available for sale. Expected future principal and interest cash flows were discounted at a rate of 5.3%, being the rate used for Indian government guaranteed debt.

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 other receivables and payables, expected future principal and interest cash flows were discounted at rates of between 8.33% and 14.83%.

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

30. Related party transactions

Control relationships

The Company`s Parent Company is Burbot Limited. 1,804,234,678 ordinary shares of the Company owned by Burbot Limited were pledged by Burbot Limited as a security for EBRD loan which had been obtained by the Group. In addition, the Group has a controlling relationship with all of its subsidiaries (see note 31 for a list of significant subsidiaries).

30. Related party transactions continued

Transactions with management

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

In thousands of US dollars	6 months ended 30 June 2005	6 months ended 30 June 2004
Salaries and bonuses	2,276	1,884
Termination benefits	238	-
	2,514	1,884

Transactions with other related parties

The Group had the following other related party transactions during the period:

	Sales		Purchases		Interest expense	
In thousands of US dollars	6 months ended 30 June 2005	6 months ended 30 June 2004	6 months ended 30 June 2005	6 months ended 30 June 2004	6 months ended 30 June 2005	6 months ended 30 June 2004
OAO Kalugskiy Turbiniy Zavod	665	1,438	9	-	-	-
RB Leasing	7,471	-	469	-	-	-
OAO Rosbank	-	-	-	-	11	958
NPO CKTI	-	-	216	-	-	-
ZAO Interplast	-	-	246	-	-	-
Other related parties	-	10	-	136	-	-

As at the balance sheet date the Group had the following related party balances outstanding with:

	Receivable		Payable	
In thousands of US dollars	30 June 2005	31 Dec 2004	30 June 2005	31 Dec 2004
OAO Kalugskiy Turbiniy Zavod – advances, current	-	10,312	441	-
OAO Kalugskiy Turbiniy Zavod – creditors	-	-	-	19
OAO Kalugskiy Turbiniy Zavod – loans given, current	-	426	-	-
RB Leasing – advances	-	-	11,457	1,707
NPO CKTI – debtors	101	154	-	-
NPO CKTI – advances	-	299	-	-
NPO CKTI – creditors	-	-	8	23
ZAO Interplast – debtors	2	58	-	-
ZAO Interplast – creditors	-	-	5	-

The nature of the related party relationships are as follows:

OAO Kalugskiy Turbiniy Zavod
Prior to sale of shares in OAO Kaluzhsky Turbinnyi Zavod by the Group to Midway Management Limited and Kestrel Ventures Inc, OAO Kaluzhsky Turbinnyi Zavod was an associate of the Group. The Group exercises significant influence on OAO Kalugskiy Turbiniy Zavod by representation at the board of directors, but does not own any interest in the company.

30. Related party transactions continued

NPO CKTI
NPO CKTI is an associate of the Group.

ZAO Interplast
ZAO Interplast is an associate of the Group.

OAO Rosbank
Board of directors of the Group includes members of the board of directors of OAO Rosbank.

RB Leasing
RB Leasing is a leasing company located in Russia. RB leasing is under the control of the majority shareholder of the Group.

Financial guarantees provided to related parties
Details of financial guarantees provided to related parties are disclosed in note 33.

31. Subsidiary Companies

Listed below are all the significant companies included in the interim consolidated financial statements:

Significant subsidiaries	Country of incorporation	Ownership interest % 30 June 2005	Ownership interest % 31 December 2004
OOO Reostat	Russia	100.00%	100.00%
ZAO Gazovie Turbini	Russia	100.00%	100.00%
ZAO LMZ Invest (note 4)	Russia	-	100.00%
LMZ Energy Limited	Ireland	100.00%	100.00%
OOO Interturbo	Russia	55.12%	55.12%
OAO SK Selecta	Russia	80.36%	80.36%
Energomachimpex (note 4)	Czech Republic	-	80.00%
EMEC LTDa Columbia	Columbia	99.99%	99.99%
Energomach Handels GMBH	Germany	100.00%	100.00%
Power Machines de Mexico (note 4)	Mexico	99.90%	-

32. Commitments

(i) Capital commitments
The Group is committed to capital expenditure (property, plant and equipment) of approximately USD 4,678 thousand (31 December 2004: USD 8,101 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 recorded in the year they are incurred.

33. 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.

In thousands of US dollars	30 June 2005	31 December 2004
Maturity in one year or more		
Third party suppliers	35,396	697,727
Maturity in less than one year		
Third party suppliers	695,111	43,339
OAO Kalugskiy Turbiniy Zavod	-	3,964
	730,507	745,030

During the 6 months ended 30 June 2005 the Group was a co-signatory to a guarantee of USD 682,381 thousand given by a consortium of companies (including the Group) against a loan obtained by CIISA. CIISA is an entity that is constructing a power station in Mexico in which the Group holds a 19% interest and participates in the construction. The Group's exposure under this guarantee is estimated to be the equivalent 19% interest in the project, USD 129,614 thousand.

The Group's contingent maximum exposure to credit losses in the event of non-performance by all other parties to these financial guarantees would amount to the total contractual amount of the guarantee stipulated above. Assets of the Group were also pledged against certain of the third party supplier guarantees (Note 23).

(ii) Contingencies

As at 31 December 2003 the Company entered into a restructuring agreement with the Ministry of Finance of Russia for the restructuring of the overdue loan the outstanding amount of which as at period end amounted to USD 10,759 thousand and relevant penalties imposed in amount of USD 7,475 thousand. Per one of the terms of the restructuring agreement in order to make this agreement effective the Group has to sign the pledge agreement. The terms of the restructuring agreement waive the total amount of penalties of USD 7,475 thousand if all conditions of restructuring are met by the Company. The penalties have not been recorded as a liability in financial statement of the Company. Management believe all conditions will be met and that the penalties will be waived.

(iii) 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 has 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.

(iv) Litigation

Litigation includes a number of small claims relating to sales made to domestic customers. Based on experience in resolving such matters, management believes that these will be resolved without significant loss to the Group and, accordingly, no provision has been made for these unresolved claims and litigation.

33. Contingencies continued

(v) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these interim consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(vi) 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 and could become material.

Under 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.

34. Subsequent events

Subsequent to the balance sheet date the Company issued additional ordinary shares by conversion of 1,046,026,000 preference shares into ordinary shares with par value RUR 0.01. The shares were exchanged equally, one for one. The additional issue of shares was registered on 18 August 2005.

In August 2005 the Group signed the pledge agreement discussed in note 33(ii) Contingencies.

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