OMZ (Uralmash-Izhora Group)

International Financial Reporting Standards
Consolidated Financial Statements

31 December 2006

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of OAO OMZ (Uralmash-Izhora Group):

We have audited the accompanying consolidated financial statements of OAO OMZ and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2006 and the related consolidated statements of income, of cash flow and of changes in shareholders' equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as discussed below, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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INDEPENDENT AUDITORS' REPORT

management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion
IAS 24 requires that an entity shall disclosure the name of its ultimate controlling party, if any. We were unable to satisfy ourselves whether there is an ultimate controlling party after the sale by a previous shareholder as set out in Note 7 and therefore whether such disclosure is required in the accompanying financial statements. Because of this matter we were unable to determine the sufficiency of the disclosures in Note 7 with respect to balances with related parties at 31 December 2006 and related party transactions subsequent to this sale of shares.

Qualified Opinion
In our opinion, except for the potential effect on disclosures of the matter set out in the Basis for Qualified Opinion paragraph, as might have been determined to be necessary had we been able to satisfy ourselves whether there is an ultimate controlling party, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

26 April 2007
Moscow, Russian Federation

	Note	December 31, 2006	December 31, 2005
ASSETS			
Current assets:			
Cash and cash equivalents	8	25,837	57,468
Trade and other receivables	9	217,593	323,009
Inventories	10	194,597	175,380
Other current financial assets	11	1,901	8,531
		439,928	**564,388**
Non-current assets held for sale	15	202,248	1,632
Total current assets		**642,176**	**566,020**
Non-current assets:			
Property, plant and equipment	12	183,956	177,372
Intangible assets	13	40,896	37,182
Deferred tax asset	27	14,245	13,719
Non-current financial assets	14	31,636	37,512
Total non-current assets		**270,733**	**265,785**
Total assets		**912,909**	**831,805**
LIABILITIES			
Current liabilities:			
Trade and other payables	16	257,792	370,500
Provisions for liabilities and charges	29	15,437	12,930
Short-term borrowings	17	101,611	117,943
		374,840	**501,373**
Liabilities directly associated with non-current assets held for sale	15	233,729	-
Total current liabilities		**608,569**	**501,373**
Non-current liabilities:			
Long-term borrowings	17	57,415	103,448
Long-term taxes payable	18	5,828	7,613
Deferred tax liability	27	30,310	27,793
Other long-term liabilities	19	5,472	4,392
Total non-current liabilities		**99,025**	**143,246**
Total liabilities		**707,594**	**644,619**
EQUITY			
Equity and reserves attributable to the Company's equity holders:			
Share capital	20	442	404
Share premium	20	109,686	100,344
Treasury shares	20	(46,899)	(42,908)
Hedging reserve	20	4,413	1,301
Currency translation reserve		14,825	4,957
Retained earnings		100,445	95,314
		182,912	**159,412**
Minority interest		22,403	27,774
Total equity		**205,315**	**187,186**
Total liabilities and equity		**912,909**	**831,805**

General Director
Sergeev E.D.
26 April 2007

Chief Financial Officer
Filatov S.N.

	Note	2006	2005
Continuing operations:			
Sales		667,031	602,175
Cost of sales	22	(518,455)	(498,445)
Gross profit		**148,576**	**103,730**
Selling expenses	23	(27,637)	(21,203)
General and administrative expenses	24	(75,702)	(69,676)
Other operating income and expenses	25	14,426	18,859
Operating profit		**59,663**	**31,710**
Finance expense-net	26	(14,536)	(21,709)
Profit before taxation		**45,127**	**10,001**
Income tax (expense)/benefit	27	(16,520)	1,135
Profit for the year from continuing operations		**28,607**	**11,136**
Discontinued operations			
Loss for the year from discontinued operations	28	**(40,122)**	**(4,907)**
(Loss)/profit for the year		**(11,515)**	**6,229**
Attributable to:			
Equity holders of the Company		(3,795)	2,383
Minority interest		(7,720)	3,846
		(11,515)	**6,229**
Earnings per share from continuing operations attributable to the equity holders of the Company (in US dollars)			
- basic	31	0.92	0.36
- diluted	31	0.92	0.36
Loss per share from discontinuing operations attributable to the equity holders of the Company (in US dollars)			
- basic	31	(1.05)	(0.28)
- diluted	31	(1.05)	(0.28)

	Note	2006	2005
Cash flows from operating activities			
Profit before taxation from continuing operations		45,127	10,001
Adjustments for:			
Depreciation and amortization	22,24	22,251	21,080
Change in provisions for impairment and other provisions	25	2,765	(4,202)
Gain on sale of non-core business units	25	-	(934)
Gain from disposal of property, plant and equipment	25	(14,929)	(5,794)
Gain on release from government financing and tax penalties	25	-	(6,500)
Write-off of accounts receivable		-	3,321
Net finance cost adjusted for foreign exchange differences	26	18,103	17,299
Unrealised foreign exchange effect on non-operating items		(6,015)	1,663
Operating cash flows before working capital changes		**67,302**	**35,934**
(Increase) decrease in accounts receivable and prepayments		(42,671)	32,512
Decrease (increase) in inventories		(27,977)	(40,332)
Increase (decrease) in trade and other accounts payable		41,004	(21,055)
Cash provided from operations		**37,658**	**7,059**
Income taxes paid		(6,464)	(907)
Net cash provided from operating activities of continuing operations		*31,194*	*6,152*
Net cash provided from (used in) operating activities of discontinued operations	*28*	*(32,667)*	*43,602*
Net cash provided from (used in) operating activities		**(1,473)**	**49,754**
Cash flows from investing activities:			
Proceeds from sale of non-core business units, including discontinued operations	25	-	21,360
Purchases of property, plant and equipment, intangibles		(40,960)	(13,741)
Proceeds from the sale of property, plant and equipment, intangibles		12,817	17
Net sale/(purchases) of financial assets		(1,416)	(858)
Acquisition of subsidiary, net of cash acquired	6	-	(19,990)
Interest received		1,200	1,009
Net proceeds from loans issued		(2,971)	7
Net cash used in investing activities of continuing operations		*(31,330)*	*(12,196)*
Net cash provided from (used in) investing activities of discontinued operations	*28*	*15,746*	*(2,017)*
Net cash used in investing activities		**(15,584)**	**(14,213)**
Cash flows from financing activities:			
Proceeds from borrowings		410,022	391,285
Repayment of borrowings		(421,467)	(338,897)
Repayment of long-term taxes payable		(233)	(2,572)
Interest paid		(16,107)	(16,337)
Dividends paid		(1)	(1)
Net cash (used in) provided from financing activities of continuing operations		*(27,786)*	*33,479*
Net cash provided from (used in) financing activities of discontinued operations	*28*	*7,987*	*(31,989)*
Net cash (used in) provided from financing activities		**(19,799)**	**1,490**
Effect of exchange rate changes		6,560	(3,957)
Net (decrease) increase in cash and cash equivalents of continuing operations		*(27,922)*	*27,435*
Net (decrease) increase in cash and cash equivalents of discontinued operations		*(8,934)*	*9,596*
Net (decrease) increase in cash and cash equivalents		**(30,296)**	**33,075**
Cash and cash equivalents at the beginning of the period		57,468	24,393
Cash and cash equivalents at the end of the period	**8**	**27,172**	**57,468**
Less cash and cash equivalent at the end of the period of discontinued operations		(1,335)	(9,646)
Cash and cash equivalents at the end of the period of continuing operations	**8**	**25,837**	**47,822**

	Note	Attributable to shareholders						Minority interest	Total equity
		Share capital	Share premium	Treasury shares	Hedging reserve	Currency translation reserve	Retained earnings		
Balance at 31 December 2004		**419**	**104,081**	**(44,507)**	**812**	**14,773**	**70,251**	**25,390**	**171,219**
Derecognition of negative goodwill		-	-	-	-	-	22,379	-	**22,379**
Adjusted balance at 1 January 2005		**419**	**104,081**	**(44,507)**	**812**	**14,773**	**92,630**	**25,390**	**193,598**
Currency translation difference		(15)	(3,737)	1,599	(29)	(9,793)	302	(975)	(12,648)
Cash flow hedges, net of tax	20	-	-	-	518	-	-	-	518
Net income/(expense) recognised directly in equity		(15)	(3,737)	1,599	489	(9,793)	302	(975)	(12,130)
Profit for the year		-	-	-	-	-	2,383	3,846	6,229
Total recognised income		(15)	(3,737)	1,599	489	(9,793)	2,685	2,871	(5,901)
Dividends declared		-	-	-	-	-	(1)	-	(1)
Disposal of non-core businesses		-	-	-	-	(23)	-	(487)	(510)
Balance at 31 December 2005		**404**	**100,344**	**(42,908)**	**1,301**	**4,957**	**95,314**	**27,774**	**187,186**
Currency translation difference		38	9,342	(3,991)	121	9,868	8,927	2,349	26,654
Cash flow hedges, net of tax	20	-	-	-	2,991	-	-	-	2,991
Net income/(expense) recognised directly in equity		38	9,342	(3,991)	3,112	9,868	8,927	2,349	29,645
Profit for the year		-	-	-	-	-	(3,795)	(7,720)	(11,515)
Total recognised income		38	9,342	(3,991)	3,112	9,868	5,132	(5,371)	18,130
Dividends declared		-	-	-	-	-	(1)	-	(1)
Balance at 31 December 2006		**442**	**109,686**	**(46,899)**	**4,413**	**14,825**	**100,445**	**22,403**	**205,315**

1. The OMZ Group and its operations

OAO OMZ and its subsidiaries ("OMZ" or "the Group") operate in four business segments comprising nuclear power plant equipment, speciality steels, machinery equipment manufacturing and mining equipment. The Group's manufacturing facilities are primarily based in Russia and the Czech Republic. The parent company, OAO OMZ ("the Company") was incorporated as an open joint stock company in Ekaterinburg, Russian Federation in 1996. OMZ's principal subsidiaries are disclosed in note 32. These are incorporated under the Laws of the Russian Federation and the Czech Republic.

The company's registered address is:

Pl. Pervoi Pyatiletki,
Ekaterinburg
Russian Federation

During 2006 the Group average number of employees was approximately 16,988. (during 2005: 18,288).

2. Financial position

Over the past two years the Group had positive operating cash flows from continuing operations. Based on these facts management believes that the Group has a stable financial position and will be able to continue to secure necessary short-term and long-term financing for its operational and investing cash flow requirements.

3. Basis of presentation of the financial statements

The consolidated financial statements of OMZ Group have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention as modified by the revaluation of available-for-sale investments, investments at fair value through profit or loss and derivative financial instruments.

The Group companies maintain their accounting records in the respective currency and prepare their statutory financial statements in accordance with local regulations of accounting of the country in which the particular subsidiary is resident. The financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

Adoption of new or revised standards and interpretations

In 2006, the group adopted the standards below, which are relevant to its operations:

IAS 19 (Amendment) Employee Benefits.
IAS 21 (Amendment) The Effect of Changes in Foreign Exchange rates.
IAS 39 (3 Amendments) Financial instruments: Recognition and Measurement.
IFRIC 4 Determining whether an Arrangement contains a Lease.
IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Fund.
IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.

- IAS 19 (Amendment) – Employee Benefits (effective from 1 January 2006). The amendment introduced an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. This amendment did not have a significant impact on these financial statements.
- IAS 21 (Amendment) – Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on monetary items that form part of net investment in a foreign operation (eg. quasi-equity intercompany loans) to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Previously, such exchange differences were required to be recognised in consolidated profit or loss. It also extended the definition of 'net investment in a foreign operation' to include loans between sister companies. This amendment did not have a significant impact on these financial statements.
- IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Group may now designate financial instruments as part of this category only if (a) such classification eliminates or

3. Basis of presentation of the financial statement (continued)

significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Company's Board of Directors; or (c) a contract contains one or more embedded derivatives unless: (i) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or (ii) it is clear with little or no analysis when the embedded derivative is first considered that separation of the embedded derivative(s) is prohibited. The Group applies the amendment retrospectively in accordance with the transitional provisions of the Fair Value Option amendment to IAS 39. The amendment did not have an impact on these financial statements. This change to IAS 39 relates only to items that were voluntarily designated as at fair value through profit or loss and does not affect trading securities and financial derivatives.

- IAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.
- IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). As a result of this amendment, the Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date. This amendment did not have a significant impact on these financial statements.
- IFRIC 4 – Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Group reassessed its arrangements and concluded that no adjustments are required as a result of adoption of IFRIC 4.
- IFRIC 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset. This interpretation did not have an impact on these financial statements.
- IFRIC 6 – Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2006, that is from 1 January 2006). The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognised until the measurement period because participation in the market during the measurement period is the obligating event in accordance with IAS 37. This interpretation did not have an impact on these financial statements.

In 2005, the group adopted the standards below, which are relevant to its operations.

IFRS 5 (issued 2005) Non-current Assets Held for Sale and Discontinued Operations.
IAS 17 (revised 2003) Leases.
IAS 28 (revised 2003) Investments in Associates.
IAS 40 (revised 2003) Investment Property
IFRIC 1 (issued 2004) Changes in Existing Decommissioning, Restoration and Similar Liabilities.
IFRIC 2 (issued 2004) Members' Shares in Co-operative Entities and Similar Instruments.

- IFRS 5: The Group applies IFRS 5 prospectively in accordance with its transitional provisions to non-current assets that meet the criteria to be classified as 'held for sale' and operations that meet the criteria to be classified as 'discontinued' after 1 January 2005. The Group's accounting policies now describe assets 'held for sale' as those that will be recovered principally through a sale transaction rather than through continuing use. Subject to certain exceptions, for example for financial assets, assets or disposal groups that are classified as 'held for sale' are now measured at the lower of carrying amount and fair value less costs to sell. Such assets cease to be depreciated and are presented separately on the face of the balance sheet. IFRS 5 resulted in reclassification of assets disclosed in Note 15 into the 'held for sale' category in the balance sheet.
- IAS 17, 28, 40, IFRIC 1, IFRIC 2 had no material effect on the Group's policies.

3. Basis of presentation of the financial statement (continued)

In 2004, the Group adopted IFRS 3 (revised 2004). The Group applies the transitional rules of IFRS 3 "Business combinations" in respect of goodwill and negative goodwill arising from business combinations for which the agreement date was before 31 March 2004. Negative goodwill that existed at 1 January 2005 was offset against retained earnings on that date.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards.

New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the entity has not early adopted:

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the Standard will have on segment disclosures in the Group's financial statements.

IAS 23 (Amendment) Borrowing Costs (revised March 2007).The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Earlier application is permitted.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);
- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's financial statements.

3. Basis of presentation of the financial statement (continued)

Presentation of continuing operations

On August, 1st, 2006 the Board of Directors has approved joint venture with OAO Atomenergomash. OAO OMZ will contribute to joint venture 78.74% of OAO Izhorskiye Zavody and 100% of ZAO Komplekt Atom Izhora. The share of OAO OMZ in new joint venture will be 49%.

On November, 17th, 2006 the Chief Executive Officer of OAO OMZ has signed the disposal plan for OAO Izhorskiye Zavody and ZAO Komplekt Atom Izhora by the Group.

In order to provide more meaningful information in the financial statements, the income statement for 2006 and 2005 is presented as continuing and discontinued operations, the latter representing the results of the segments sold to the date of their disposal.

In the balance sheet for 2006 OAO Izhorskiye Zavody and ZAO Komplekt Atom Izhora, which is part of the nuclear segment, are presented as non-current assets held for sale.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). For most of the Group's entities the functional currency is the Russian Rouble, except for those entities operating in the Czech Republic for which the functional currency is the Czech Koruna. As management considers that the US dollar is a more convenient currency for users of these consolidated financial statements, these consolidated financial statements are presented in US dollars - the Group's presentation currency.

Monetary assets and liabilities held by Group entities and denominated in foreign currencies at 31 December 2006 are translated into the functional currency at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

The results and financial position of those Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities in each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses in each income statement presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a currency translation reserve in equity.

At 31 December 2006, the official rates of exchange, as determined by the Central Bank of the Russian Federation, were US dollar (US$) 1=RR 26.33 (December 31, 2005 USD1=RR 28.78) and Czech Koruna (CZK) 1=RR 1.26 (December 31, 2005 CZK1=RR 1.18). Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

Accounting for the effects of hyperinflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Company no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make prudent estimates and assumptions that affect the reported results and financial position. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the

3. Basis of presentation of the financial statement (continued)

Critical accounting estimates and judgments (continued)

actual results. 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) Long-term contracts

Estimates have been made with respect to the recognition of revenue and gross margin on construction contracts including the expected "costs to complete" on such contacts. If the actual gross margins on the Group's contracts are 10% lower than management's estimates at 31 December 2006, the Group would need to reduce the carrying value of receivables recognised using the percentage-of-completion method (notes 4.15, 4.16 and 21) by US$ 28,058 with a corresponding effect on operating profit.

(ii) Impairment

The Group tests whether impairment indicators exist on annually basis, and if any property, plant and equipment are tested on impairment in accordance with the accounting policy (note 4.7). The goodwill is tested on impairment annually in accordance with the accounting policy. If the estimated gross margin, which impacts the assumptions of future cash flows, at 31 December 2006 had been 10% lower than management's estimates the Group would not need to reduce the carrying value of property, plant and equipment, goodwill and other intangibles assets.

*Impairment of available for-sale equity investments***.** The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating or financing cash flows.

(iii) Deferred taxation

With respect to deferred taxes, management has assumed that US$ 26,325 of tax losses will be utilised in the future, the effect of which is to reduce the deferred tax liability recorded at 31 December 2006 by US$ 6,318. Should these tax losses not be used, the deferred tax liability would be increased by this amount with a corresponding impact on the tax charge for the year. Tax benefits expire in 2009 (US$ 3,449) and 2015 (US$ 2,869).

Other areas where judgements have been made include provisions for trade and other receivables (note 9) and provisions for inventory (note 10).

4. Significant accounting policies

4.1 Group accounting

Subsidiary undertakings

Subsidiary undertakings, defined as those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over the operations, are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest at the balance sheet date represents the minority shareholders' portion of fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the combination. Any excess of the amount paid to the minority in excess of the book value of the minority interest acquired is added to goodwill.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases. The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss. Identifiable assets acquired and liabilities and contingent

4. Significant accounting policies (continued)

4.1 Group accounting (continued)

liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Associated undertakings

Associates are undertakings over which the Group generally has between 20% and 50% of the voting rights, or otherwise the Group has significant influence, but which it does not control. Investments in associated undertakings are accounted for by the equity method of accounting. The associates are initially recognised at cost and the Group's share of post-acquisition profit or loss is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in its reserves. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associated undertakings includes goodwill on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

4.2 Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are classified as current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Current loans and receivables are included in trade and other receivables (note 9) and non-current loans and receivables included in non-current financial assets (note 14).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. In the financial statements that include the foreign operation and the reporting entity, such exchange differences shall be recognised initially in a separate component of equity and recognised in profit or loss on disposal of the net investment. Changes in the fair value of monetary securities denominated in a foreign Currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

4. Significant accounting policies (continued)

4.2 Investments (continued)

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

4.3 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks with a maturity at the date of recognition of less than three months, which are considered by the Group at the time of deposit to have a minimal risk of default.

4.4 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less a provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

4.5 Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

4.6 Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the first-in-first-out basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

4.7 Property, plant and equipment

Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Depreciation is calculated on the restated amounts of property, plant and equipment on a straight-line basis. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, are as follows:

4. Significant accounting policies (continued)

4.7 Property, plant and equipment (continued)

	Number of years
Buildings	up to 50
Constructions	up to 25
Plant and machinery	up to15
Other	up to 5

Land and assets under construction are not depreciated.

Repairs and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the net book values of the replaced assets are written off. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of income as incurred.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Interest expense on borrowings to finance the construction and purchase of property, plant and equipment is not capitalised.

4.8 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on the acquisition of subsidiary undertakings is included in intangible assets. Goodwill on the acquisition of associated undertakings is included in investments in associated undertakings. The gain or loss on disposal of an entity includes the balance of goodwill relating to the disposed entity.

Goodwill is carried at cost less accumulated impairment losses. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Beginning 1 January 2005, previously recognized goodwill will no longer be amortized; previously recognized negative goodwill will be derecognised, with a corresponding adjustment to the opening balance of retained earnings.

Trademarks

Trademarks are shown at historical cost. Trademarks have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (50 years). Where an indication of impairment exists, the carrying amount of trademarks are assessed and, when impaired, the asset is written down immediately to its recoverable amount, which is the higher of net selling price and value in use.

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as an intangible asset if, and only if, it is technically feasible to complete the project, there is an intention to complete the project, it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit. The amortisation periods adopted do not exceed ten years.

Other intangible assets

Expenditure on acquired patents and licences is capitalised and amortised using the straight-line method over their useful lives, which do not exceed 20 years. The useful lives of other intangible assets do not exceed 15 years.

Impairment of other intangible assets

Where an indication of impairment exists, the carrying amount of other intangible asset is assessed and, when impaired, the asset is written down immediately to its recoverable amount, which is the higher of net selling price and value in use.

4. Significant accounting policies (continued)

4.9 Non-current assets classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (d) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's balance sheet are not reclassified or re-presented in the comparative balance sheet to reflect the classification at the end of the current period.

A disposal group is assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the balance sheet date. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale property, plant and equipment, or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment, are not depreciated or amortised. Reclassified non-current financial instruments and deferred taxes are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the balance sheet.

4.10 Discontinued operations.

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

4.11 Borrowings

Borrowings are recognised initially at cost, which is the fair value of the proceeds received (determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowing costs are expensed as incurred.

4.12 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

4.13 Provisions

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

4. Significant accounting policies (continued)

4.13 Provisions (continued)

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises the estimated liability to repair or replace products sold still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

4.14 Equity

Share capital

Ordinary shares and non-redeemable preferred shares with cumulative dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

Treasury shares

Where the Company or its subsidiaries purchase the Company's equity share capital, the consideration paid including any attributable transaction costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

4.15 Construction contracts

Construction contracts generally include long-term contracts to manufacture design-build equipment, including nuclear power plant equipment, continuous casting machines and handling machinery.

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are probable of recovery. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The Group uses the "percentage of completion method" to determine the appropriate amount of revenues to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers are included within trade and other receivables.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

4.16 Revenue recognition

Sales under contracts other than construction contracts are normally recognised when goods are shipped and the buyer accepts delivery. In this case revenue from sales of goods and services are recognised for the contract as a whole when the services are performed; payments received for the goods are recognised until then as deferred income.

Sales are shown net of VAT and discounts, and after eliminating sales within the Group.

Sales are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, sales are measured at the fair value of the goods or services given up.

4. Significant accounting policies (continued)

4.17 Employee benefits

Social costs

The Group incurs employee costs related to the provision of benefits such as health services and kindergarten services. These amounts principally represent an implicit cost of employing production workers and, accordingly, have been charged to cost of sales.

Pension costs

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

Discretionary pensions and other post-employment benefits are included in labour costs in the income statement of operations; however, separate disclosures are not provided, as these costs are not material.

4.18 Derivative financial instruments and hedging activities

The Group enters into financial derivative contracts solely for the purpose of hedging future cash flows. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Derivative financial instruments include foreign exchange contracts and are carried as trading assets or liabilities at fair value through profit or loss.

Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

5. Segment information

Primary reporting format – business segments

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's continuing operations are organised into four main business segments:

Equipment for nuclear power plants segment (NPPEQ) production is based at ŠKODA JS a.s. (Czech Republic) and produces the following types of equipment for the nuclear power industry:

- spent nuclear fuel containers for nuclear power blocks. The Company manufactures containers for storage and transportation of spent nuclear fuel from pressurized water reactors and scientific nuclear reactors.
- a wide range of spare parts.

In addition, the segment provides services for project management of long-term contracts for the construction of nuclear power plants.

Specialty steel segment (STEEL) produces 150 specialty steel grades and a variety of castings and forgings. The Group produces high-strength structural grades, corrosion-resistant, radiation-resistant, heat-resistant, cold-resistant, non-magnetic and high-alloyed grades of steel. Standard types of casting, forging, and moulding production include retaining rings for power generating equipment, chill mould blanks, bearing ring blanks, column equipment, ship spindles, mill rolls, tank courses, as well as similar custom-made metal products. A significant part of the basic metal production is used internally as an input for the machinery equipment manufacturing segment and equipment for nuclear power plants.

Specialty steels are manufactured primarily at OMZ-Specstal (Russia), ŠKODA HUTE s.r.o., ŠKODA KOVARNY s.r.o. (Czech Republic) and Uralmash Specstal (Russia).

5. Segment information (continued)

Machinery equipment manufacturing segment (MMEQ) produces machinery equipment based on OMZ's proprietary engineering and the production of equipment based on third party engineering, for various industries, including oil and gas, mining and metallurgical equipment.

In 2006 the main production sites of the machinery equipment manufacturing segment is Uralmash.

Mining equipment segment (MINEQ) specializes in engineering and marketing of three major types of mining equipment: excavators (electric mining excavators and walking draglines), crushing equipment, and rock-drilling machines.

Other business (other). This comprises sales of electricity and heating generated by an electricity plant located at Uralmash (Russia). It also comprises the sales of equipment for oil refineries and other activities.

Izhorskiye Zavody and Komplekt Atom Izhora, which mainly operates in *NPPEQ* segments, are classified as non-current assets held for sale and represented as discontinued operations.

Izhorskiye Zavody also manufactures machinery equipment (*MMEQ segment*) and equipment for oil refineries and other segment (*Other business*).

Sales or other transactions between the business segments are based on commercial terms that are available to third parties. Unallocated costs and benefits represent corporate expenses and income from the sale of non-core subsidiaries. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories and receivables, and mainly exclude cash and investments. Segment liabilities comprise operating liabilities and exclude corporate borrowings. Capital expenditure comprises additions to property, plant and equipment, development costs and the cost of business acquisitions. Changes in provisions for impairment and other provisions relate only to those charges made against allocated assets.

2006	NPPEQ	STEEL	MMEQ	MINEQ	Other	Eliminations and unallocated items	Total
Continuing operations							
Total sales	103,003	393,457	92,360	133,607	58,408	(113,804)	667,031
Less intersegment sales	(259)	(36,335)	(46,684)	(1,168)	(29,358)	113,804	-
External sales	102,744	357,122	45,676	132,439	29,050	-	667,031
Gross margin	18,595	83,101	8,292	31,661	9,958	(3,031)	148,576
Gross margin, %	**18%**	**21%**	**9%**	**24%**	**17%**	**-**	**22%**
Segment result	9,633	52,295	(7,456)	6,186	3,938	(966)	63,630
Unallocated operating income and expenses	-	-	-	-	-	(3,967)	(3,967)
Operating profit	**9,633**	**52,295**	**(7,456)**	**6,186**	**3,938**	**(4,933)**	**59,663**
Finance income/(expense)-net	-	-	-	-	-	(14,536)	(14,536)
Profit before taxation	**9,633**	**52,295**	**(7,456)**	**6,186**	**3,938**	**(19,469)**	**45,127**
Income tax benefit (expenses)						(16,520)	(16,520)
Profit/(loss) for the year	**9,633**	**52,295**	**(7,456)**	**6,186**	**3,938**	**(35,989)**	**28,607**
Segment assets	130,197	257,363	87,000	109,432	9,732	464	594,188
Unallocated assets	-	-	-	-	-	116,473	116,473
Non-current assets held for sale	202,248	-	-	-	-	-	202,248
Total assets	**332,445**	**257,363**	**87,000**	**109,432**	**9,732**	**116,937**	**912,909**
Segment liabilities	58,271	107,602	25,737	44,458	25,567	-	261,635
Unallocated liabilities	-	-	-	-	-	212,230	212,230
Liabilities directly associated with non-current assets held for sale	233,729	-	-	-	-	-	233,729
Total liabilities	**292,000**	**107,602**	**25,737**	**44,458**	**25,567**	**212,230**	**707,594**
Capital expenditure	2,346	19,457	1,854	2,708	20,695	-	47,060
Depreciation and amortisation	5,313	10,999	3,551	942	1,446	-	22,251
Change in other provisions	(775)	2,166	(997)	(3,149)	168	(93)	(2,680)
Change in provisions for impairment of property, plant and equipment and intangible assets	-	-	-	-	-	(85)	(85)

5. Segment information (continued)

2005	NPPEQ	STEEL	MMEQ	MINEQ	Other	Eliminations and unallocated items	Total
Continuing operations							
Total sales	132,582	307,385	92,323	128,703	54,970	(113,788)	602,175
Less intersegment sales	(543)	(43,436)	(44,099)	(639)	(25,071)	113,788	-
External sales	132,039	263,949	48,224	128,064	29,899	-	602,175
Gross margin	21,462	34,150	11,618	32,895	4,697	(1,092)	103,730
Gross margin, %	**16%**	**11%**	**13%**	**26%**	**9%**	**-**	**17%**
Segment result	12,935	10,976	3,798	13,248	(1,498)	1,165	40,624
Unallocated operating income and expenses	-	-	-	-	-	(8,914)	(8,914)
Operating profit	**12,935**	**10,976**	**3,798**	**13,248**	**(1,498)**	**(7,749)**	**31,710**
Finance income/(expense)-net						(21,709)	(21,709)
Profit before taxation	**12,935**	**10,976**	**3,798**	**13,248**	**(1,498)**	**(29,458)**	**10,001**
Income tax benefit (expenses)						1,135	1,135
Profit/(loss) for the year	**12,935**	**10,976**	**3,798**	**13,248**	**(1,498)**	**(28,323)**	**11,136**
Segment assets	304,214	205,725	100,087	81,908	55,243	(2,441)	744,736
Unallocated assets	-	-	-	-	-	87,069	87,069
Non-current assets held for sale	-	-	-	-	-	-	-
Total assets	**304,214**	**205,725**	**100,087**	**81,908**	**55,243**	**84,628**	**831,805**
Segment liabilities	182,709	78,585	49,201	38,074	22,607	-	371,176
Unallocated liabilities	-	-	-	-	-	273,443	273,443
Liabilities directly associated with non-current assets held for sale	-	-	-	-	-	-	-
Total liabilities	**182,709**	**78,585**	**49,201**	**38,074**	**22,607**	**273,443**	**644,619**
Capital expenditure	1,509	12,538	2,196	863	891	-	17,997
Depreciation and amortisation	3,184	14,990	1,643	412	851	-	21,080
Change in other provisions	(46)	1,339	4,399	(1,687)	88	(30)	4,063
Change in provisions for impairment of property, plant and equipment and intangible assets	-	6	1,516	38	(1,421)	-	139
Gain from release on government financing and tax penalties	-	-	-	-	-	6,500	6,500
Write-off of accounts receivable	-	-	-	-	-	(3,321)	(3,321)

5. Segment information (continued)

Secondary reporting format – geographical segments

Continuing operations

The Group's four business segments operate in five main geographical areas:

	Sales		Total assets		Capital expenditure	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Russian Federation	311,490	288,673	558,731	513,730	34,452	13,409
Commonwealth of Independent States	49,712	47,241	2	352	-	-
Asia	49,597	17,769	-	-	-	-
Europe	246,051	239,591	354,176	317,723	12,608	4,588
Other regions	10,181	8,901	-	-	-	-
Total	**667,031**	**602,175**	**912,909**	**831,805**	**47,060**	**17,997**

Sales are based on the geographical area in which the customer is located. Assets and capital expenditure are based on the geographical area where the assets are located.

6. Business combinations

Acquisitions in 2005

In March 2005 the Group acquired a 100 percent share in OOO OMZ-Kran and 75 percent share in OAO VNIIPMASH from Morskie Neftegazovie Proekty. OOO OMZ-Kran and OAO VNIIPTMASH are specialised in engineering of a range of heavy-duty special purpose cranes and other machines.

Positive goodwill is attributable to the fact that engineering of special purposes cranes is a promissory segment which management expect will give a competitive advantage to OMZ in the future.

The acquired businesses contributed revenues of US$ 11,683 and a net loss of US$ 2,080 to the Group for the period from March 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, the revenue of the combined entity would have been US$ 667,192, and the net profit of the combined entity would have been US$6,533.

The impact of acquisitions of subsidiaries on the consolidated financial statements was as follows:

	OMZ-Kran and VNIIPMASH	
	Fair value	**Acquiree's IFRS carrying value**
Cash and cash equivalents	154	154
Accounts receivable and prepayments	15,028	15,028
Inventories	1,858	1,858
Other current assets	72	72
Property, plant and equipment	494	494
Other non-current assets	201	201
Trade and other payables	(19,247)	(19,247)
Short-term borrowings	(354)	(354)
Deferred tax asset (liability)	(1,401)	(1,401)
Net liabilities acquired	**(3,195)**	**(3,195)**
Consideration	79	
Goodwill	**3,274**	
Cash paid by the Company	79	
Less cash of acquired subsidiary	(154)	
Cash flow on acquisition, net of cash acquired	**(75)**	

In 2005 the cash paid for the acquisition of subsidiary was in amount of US$ 19,990 mainly for Skoda acquired in 2004.

7. Balances and transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 (revised 2003) "Related Party Disclosures".

The Group is significantly influenced by ZAO "Forpost-Management", which owns 44.41% of the Company share capital at 31 December 2006.

On 20 October 2005 the largest shareholder of the Group sold his shares in the Company.

During 2006 and 2005 there were no transactions with related parties other than key management compensation as set out below.

Key management compensation

The remuneration paid to the directors of the Company is determined in respect of the period from one annual general meeting to the next. The most recent annual general meetings of the Company were held on 5 June 2006 and 27 June 2005. During the years ended 31 December 2006 and 2005, the aggregate compensation to the directors included in general and administrative expenses in the consolidated income statement amounted to US$7,014 and US$4,976, respectively.

8. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2006	2005
RR denominated cash on hand and balances with banks	11,144	14,199
CZK denominated cash on hand and balances with banks	720	13,029
EURO denominated balances with banks	5,130	9,423
US$ denominated balances with banks	7,070	20,059
Other currency denominated balances with bank	1,773	758
	25,837	**57,468**

The effective interest rate of bank balance payable on demand is 0.1 percent (2005: 0.1 percent).

9. Trade and other receivables

	2006	2005
Trade receivables	82,083	82,511
Accounts due from customers for contract work	15,763	49,571
VAT recoverable	35,180	52,792
VAT on advances from customers	20,405	23,597
Other taxes receivable	6,276	5,947
Advances to suppliers	47,759	91,974
Forward foreign exchange contracts – cash flow hedges	5,258	316
Other receivables	4,869	16,301
	217,593	**323,009**

Accounts receivable are denominated in Russian Roubles except for US$6,658 and US$51,241 of accounts receivable denominated in US dollars and CZK respectively at 31 December 2006 (at 31 December 2005 US$138,626 and US$25,671).

Provisions for impairment offset against the account receivable balances are as follows:

	2006	2005
Trade receivables	(7,027)	(7,616)
Advances to suppliers	(1,601)	(1,628)
Other receivables	(7,407)	(6,096)
	(16,035)	**(15,340)**

The fair value of accounts receivable net of the provisions approximate their carrying amounts.

10. Inventories

	2006	2005
Raw materials	60,963	59,402
Work in progress	111,191	85,957
Finished goods	36,093	51,651
Goods in transit	11,922	4,876
Provision for obsolete inventory	(25,572)	(26,506)
	194,597	**175,380**

Certain inventories included above totalling US$17,158 (2005: US$12,723) were provided as security under loan agreements (note 17). At 31 December 2006 inventories totalling US$3,463 were carried at fair value less costs to sell (31 December 2005: US$4,903).

The cost of write-down of inventories recognised as expense amounted to US$3,570 in 2006 (2005: US$2,140).

11. Other current financial assets

	2006	2005
Financial assets at fair value through profit or loss	261	5,917
Short-term derivative financial instruments	1,640	2,614
	1,901	**8,531**

At 31 December 2006 financial assets at fair value through profit or loss represent mainly RR denominated promissory notes with a weighted average interest rate of 0.9 percent (31 December 2005: 3 percent) which management intends to sell within 12 months from the balance sheet date.

12. Property, plant and equipment

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
Balance at 31 December 2005					
Cost	165,548	218,980	18,771	9,661	412,960
Accumulated depreciation	(62,422)	(130,724)	(15,352)	-	(208,498)
Impairment loss recognised	(2,087)	(20,853)	(769)	(3,381)	(27,090)
Net book value at 31 December 2005	**101,039**	**67,403**	**2,650**	**6,280**	**177,372**
Exchange differences	12,079	8,042	396	1,082	21,599
Reclassification to held-for-sale	(28,735)	(8,810)	(637)	(623)	(38,805)
Additions	22,691	10,632	2,060	10,872	46,255
Disposals	(1,860)	(933)	233	(197)	(2,757)
Depreciation	(4,271)	(13,885)	(1,552)	-	(19,708)
Closing net book value	**100,943**	**62,449**	**3,150**	**17,414**	**183,956**
Balance at 31 December 2006					
Cost	163,565	204,825	18,438	21,163	407,991
Accumulated depreciation	(59,712)	(117,972)	(14,639)	(683)	(193,006)
Impairment loss recognised	(2,910)	(24,404)	(649)	(3,066)	(31,029)
Net book value at 31 December 2006	**100,943**	**62,449**	**3,150**	**17,414**	**183,956**

12. Property, plant and equipment (continued)

Comparative information for the year 2005:

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
Balance at 31 December 2004					
Cost	182,136	231,150	23,260	13,043	449,589
Accumulated depreciation	(63,612)	(133,188)	(17,176)	-	(213,976)
Impairment loss recognised	(2,595)	(20,842)	(2,092)	(8,786)	(34,315)
Net book value at 31 December 2004	**115,929**	**77,120**	**3,992**	**4,257**	**201,298**
Exchange differences	(6,286)	(4,439)	(191)	(314)	(11,230)
Disposal of non-core businesses units (note 25)	(661)	(167)	(351)	(39)	(1,218)
Addition through acquisition of subsidiaries (note 6)	359	98	37	-	494
Additions	666	14,498	1,622	2,134	18,920
Disposals	(4,477)	(4,975)	(831)	35	(10,248)
Depreciation	(5,800)	(14,911)	(1,600)	-	(22,311)
Impairment (charge) release (note 25)	1,309	179	(28)	207	1,667
Closing net book value	**101,039**	**67,403**	**2,650**	**6,280**	**177,372**
Balance at 31 December 2005					
Cost	165,548	218,980	18,771	9,661	412,960
Accumulated depreciation	(62,422)	(130,724)	(15,352)	-	(208,498)
Impairment loss recognised	(2,087)	(20,853)	(769)	(3,381)	(27,090)
Net book value at 31 December 2005	**101,039**	**67,403**	**2,650**	**6,280**	**177,372**

At 31 December 2006 bank borrowings are secured on properties with a carrying value of US$25,641 (2005: US$23,248) (Note17).

At 31 December 2006 and 31 December 2005 the gross carrying value of fully depreciated property, plant and equipment was US$64,828 and US$195,154 respectively.

At 31 December 2006 management assessed the recoverable amount of property, plant and equipment and the adequacy of impairment losses and recognised in prior periods. Discount rates of 11.1 percent and 13.06 percent for US dollar denominated and Russian Rouble denominated cash flows, respectively, have been used in estimating the recoverable value through discounted cash flows at 31 December 2006 (10.6 percent and 13.3 percent at 31 December 2005). An impairment reversal totalling US$1,667 was recorded in 2005 and mainly relates to the recovery to fair value less costs to sell of previously temporarily closed-down buildings at Uralmash. An impairment release mainly relates to machinery equipment manufacturing segment (MMEQ).

Land and buildings include 120 plots of land in Bolevec (Czech Republic) with a total area of 336,511 square meters and 36 plots in Plzen (Czech Republic) with a total area of 126,523 square meters. Uralmash signed 20-49 year rental agreements, under which rent payments are negotiated annually.

13. Intangible assets

	Goodwill	Trade mark	Internally developed intangible assets	Total
Balance at 31 December 2005				
Cost	7,122	20,047	19,869	47,038
Accumulated amortisation	-	(871)	(3,772)	(4,643)
Impairment loss recognised	(5,213)	-	-	(5,213)
Net book value at 31 December 2005	**1,909**	**19,176**	**16,097**	**37,182**
Reclassification to held-for-sale	-	(11)	(332)	(343)
Additions	-	-	805	805
Disposal	-	-	(13)	(13)
Amortisation	-	(621)	(1,922)	(2,543)
Impairment charge (note 25)	(85)	-	-	(85)
Exchange differences	176	3,187	2,530	5,893
Closing net book value	**2,000**	**21,731**	**17,165**	**40,896**
Balance at 31 December 2006				
Cost	7,651	23,409	23,573	54,633
Accumulated amortisation	-	(1,678)	(6,408)	(8,086)
Impairment loss recognised	(5,651)	-	-	(5,651)
Net book value at 31 December 2006	**2,000**	**21,731**	**17,165**	**40,896**

Comparative information for the year 2005:

	Goodwill	Trade mark	Internally developed intangible assets	Total
Balance at 31 December 2004				
Cost	5,152	21,474	21,343	47,969
Accumulated amortisation	(579)	(514)	(1,107)	(2,200)
Impairment loss recognised	(3,818)	-	-	(3,818)
Net book value at 31 December 2004	**755**	**20,960**	**20,236**	**41,951**
Addition through acquisition of subsidiary (note 6)	3,274	-	-	3,274
Additions	-	-	924	924
Disposal of non-core businesses (note 25)	(658)	-	(26)	(684)
Disposals	-	-	(786)	(786)
Amortisation	-	(299)	(2,485)	(2,784)
Impairment charge (note 25)	(1,414)	-	-	(1,414)
Exchange differences	(48)	(1,485)	(1,766)	(3,299)
Closing net book value	**1,909**	**19,176**	**16,097**	**37,182**
Balance at 31 December 2005				
Cost	7,122	20,047	19,869	47,038
Accumulated amortisation	-	(871)	(3,772)	(4,643)
Impairment loss recognised	(5,213)	-	-	(5,213)
Net book value at 31 December 2005	**1,909**	**19,176**	**16,097**	**37,182**

Trade marks consist of trade marks "ŠKODA" used by ŠKODA JS a.s. and ŠKODA Kovarny s.r.o. The fair values of these trade marks were evaluated by American Appraisal in 2004 using the income approach, referred to as the "relief from royalty" method.

Internally developed intangible assets mostly consist of patented and non-patented technologies (net book value at 31 December 2006 is US$12,599 and US$11,368 at 31 December 2005) and research and development costs (net book value at 31 December 2006 is US$2,969 and US$3,520 at 31 December 2005).

At 31 December 2006 management assessed the recoverable amount of intangible assets and the adequacy of impairment losses recognised in prior periods. In 2005 an impairment charge totalling US$1,414 was made in relation to goodwill which arose in acquiring OMZ-Kran and VNIIPTMASH. The recoverable amount was

13. Intangible assets (continued)

determined based on value-in-use calculations. The calculations use cash flow projections based on financial budgets approved by management.

The recoverable amount of OMZ-Kran and VNIIPTMASH was determined based on value-in-use calculations. Based on past experience, value-in-use was determined using cash flow projections over a short-term period, reflecting the fact that there is uncertainty requiring the ability to generate cash beyond the next two years, and a discount rate of 11.1% (2005: 10.6%).

14. Non-current financial assets

	2006	2005
Available-for-sale investments	2,225	3,734
Advances issued	20,897	21,034
Forward foreign exchange contracts – cash flow hedges	1,429	1,357
Accounts due from customers for contract work	-	4,498
Long-term bank deposits	6,243	6,127
Other receivables	842	762
	31,636	**37,512**

As at 31 December 2006 and 31 December 2005 long-term advances issued represent mainly advances paid by ŠKODA JS a.s. for long-term contracts.

At 31 December 2006 available for-sale investments are mainly represented by investments in UJV Rez of US$2,191 (17.4% of ownership interest held), (31 December 2005: investments in PTB of US$1,159 (2.73% of PTB share capital), in UJV Rez of US$1,873 (17.4% of the shares)).

At 31 December 2005 accounts due from customers for contract work represent the amount receivable under the agreements related to the construction of the Liang Yung Gang nuclear power plant in China.

An amount of US$6,243 deposited in bank accounts is assigned specifically to guarantee contractual agreements with customers and will be released gradually as the individual projects are completed (31 December 2005: US$6,127).

15. Non-current assets held for sale

At 31 December 2006 OAO Izhorskiye Zavody and ZAO Komplekt Atom Izhora are presented as non-current assets held for sale.

Major classes of non-current assets classified as held for sale:

	2006	2005
Cash and cash equivalents	1,335	-
Trade and other receivables	125,824	-
Inventories	23,911	-
Property, plant and equipment	38,805	1,632
Intangible assets	288	-
Deferred tax asset	5,497	-
Non-current financial assets	6,588	-
Total non-current assets classified as held for sale	**202,248**	**1,632**

Non-current assets held for sale at 31 December 2005 related to the segment "Other" were sold in 2006.

Major classes of liabilities directly associated with non-current assets classified as held for sale:

	2006	2005
Trade and other payables	129,739	-
Short-term borrowings	59,038	-
Long-term borrowings	38,673	-
Long-term taxes payable	3,184	-
Deferred tax liability	2,975	-
Other long-term liabilities	120	-
Total liabilities directly associated with non-current assets classified as held for sale	**233,729**	**-**

The Group expects the sale of these assets to be completed by the end of 2007.

16. Trade and other accounts payable

	2006	2005
Trade payables	94,170	102,840
Advances received	86,654	73,697
Advances received for contract work	-	95,091
Accounts due to customers for contract work	30,877	19,481
Deferred VAT	3,848	25,811
Short-term portion of long-term taxes payable (note 18)	-	2,082
Other taxes payable	10,355	15,161
Payroll accounts payable	14,002	13,067
Other payables and accrued expenses	17,886	23,270
	257,792	**370,500**

At 31 December 2006 accounts payable were primarily denominated in Russian Roubles except for US$21,364 and US$72,642 of accounts payable denominated in US dollars and Czech Koruna respectively (at 31 December 2005 US$127,082 and US$62,606 denominated in US dollars and Czech Koruna respectively).

The fair values of trade and other accounts payable approximate their carrying amounts.

17. Borrowings

Short-term borrowings

	2006	2005
Banks:		
US$ denominated fixed rate	42,220	59,737
EURO denominated fixed rate	47,556	12,672
RR denominated fixed rate	11,835	13,035
	101,611	**85,444**
Add: current portion of long-term debt	-	1,019
Non-convertible bonds	-	31,480
	101,611	**117,943**

The effective interest rates at the balance sheet dates were as follows:

	2006	2005
Banks:		
US$ denominated fixed rate	9.38%	8.69%
EURO denominated fixed rate	7.11%	7.30%
RR denominated fixed rate	9.79%	10.02%

As at 31 December 2006, short-term borrowings totalling US$25,641 and US$17,158 (31 December 2005: US$23,248 and US$12,723) are secured on the property and inventory of the Group, respectively. The carrying amount of pledged inventory and property, plant and equipment is disclosed in notes 10 and 12, respectively.

Long-term borrowings

	2006	2005
Banks:		
US$ denominated fixed rate	-	56,673
RR denominated fixed rate	-	46,781
US$ denominated floating rate	-	832
EURO denominated floating rate	-	181
	-	**104,467**
Non-convertible bonds	57,415	-
	57,415	**104,467**
Less: current portion of long-term debt	-	(1,019)
Total long-term borrowings	**57,415**	**103,448**

17. Borrowings (continued)

The effective interest rates at the balance sheet dates were as follows:

	2006	2005
Banks:		
US$ denominated fixed rate	-	9.66%
RR denominated fixed rate	-	11.00%
US$ denominated floating rate	-	LIBOR plus 6.35
EURO denominated floating rate	-	EURIBOR plus 4.2
Non-convertible bonds	8.80%	14.25%

The re-pricing period for Floating interest rates is every six months.

At 31 December 2006 long-term loans had the following maturity profile:

	2007	2008	2009	2010 and after	Total
Banks:					
US$ denominated floating rate	-	-	-	-	-
EURO denominated floating rate	-	-	-	-	-
US$ denominated fixed rate	-	-	-	-	-
RR denominated fixed rate	-	-	-	-	-
	-	**-**	**-**	**-**	**-**
Non-convertible bonds	-	-	57,415	-	57,415
	-	**-**	**57,415**	**-**	**57,415**

At 31 December 2005 long-term loans had the following maturity profile:

	2006	2007	2008	2009 and after	Total
Banks:					
US$ denominated floating rate	832	-	-	-	832
EURO denominated floating rate	181	-	-	-	181
US$ denominated fixed rate	-	56,673	-	-	56,673
RR denominated fixed rate	6	46,775	-	-	46,781
	1,019	**103,448**	**-**	**-**	**104,467**

The Group has not entered into any derivative contracts in respect of its foreign currency obligations or interest rate exposure.

The carrying amounts and fair values of long-term debt are as follows:

	2006		2005	
	Carrying amounts	Fair values	Carrying amounts	Fair values
Banks	-	-	103,448	103,186
Non-convertible bonds	57,415	55,743	-	-

The fair value of long-term debt is estimated by discounting the future contractual cash outflows at the market interest rate available to the Group at the balance sheet date of 9.8 percent for RR denominated borrowings (31 December 2005: 9.2 percent for US dollar denominated and 10.5 percent for RR denominated).

As at 31 December 2006 and 31 December 2005 no long-term borrowings are pledged.

At 31 December 2006 the Group had unused borrowing facilities of US$88,319 (31 December 2005: US$122,159).

17. Borrowings (continued)

Domestic non-convertible bonds

Balance at 31 December 2004	**24,275**
Issuance (par value RR 1 thousand totalling RR'mln 226)	8,449
Amortization of discount	(52)
Effect of exchange rate changes	(1,192)
Balance at 31 December 2005	**31,480**
Issuance (par value RR 1 thousand totalling RR'mln 1,500)	56,039
Repayment (par value RR 1 thousand totalling RR'mln 886)	(33,145)
Amortization of discount	(307)
Effect of exchange rate changes	3,348
Balance at 31 December 2006	**57,415**

18. Long-term taxes payable

Long-term taxes payable mainly comprise various taxes payable to the state and local budgets and non-budget funds of the Russian Federation which were previously past due and which have been restructured to be repaid over a period of up to 10 years.

	2006	**2005**
Current	-	2,082
1 to 2 years	5,828	5,929
2 to 3 years	-	85
3 to 4 years	-	67
4 to 5 years	-	1,532
Total restructured	**5,828**	**9,695**
Less: current portion of taxes payable (note 16)	-	(2,082)
Total long term taxes payable	**5,828**	**7,613**

At 31 December 2006 long-term taxes payable bore an effective interest rate of 5.5 percent per annum (31 December 2005: 5.5 percent).

The fair value of long-term taxes payable at 31 December 2006 totalled US$ 5,328 (31 December 2005: US$ 6,512). The fair value of long-term taxes payable is estimated by discounting the future cash outflows in accordance with the terms of restructured tax agreements at the market interest rate available to the Group at the balance sheet date of 9.4 percent (31 December 2005: 10.5 percent).

19. Other long-term liabilities

	2006	**2005**
Trade payables, long-term	5,338	1,612
Other long-term liabilities	134	2,780
	5,472	**4,392**

At 31 December 2006 other long-term liabilities mainly comprised trade accounts payable to Data Systems & Solutions SAS, the subcontractor on Dukovany project (Skoda JS).

At 31 December 2005 other long-term liabilities comprised letters of credit, related to an agreement with Syrian Petroleum Company, for the supply of electrical drilling rigs. The amount due at 31 December 2006 is US$134.

20. Equity

	Number of outstanding shares (thousands)		Number of treasury shares (thousands)		Share capital		Treasury shares	
	Preference shares	Ordinary shares	Preference shares	Ordinary shares	Preference shares	Ordinary shares	Preference shares	Ordinary shares
At 1 January 2004	**2,750**	**35,480**	**(2,720)**	**(4,551)**	**30**	**389**	**(25,362)**	**(19,145)**
Currency translation	-	-	-	-	(1)	(14)	912	687
At 31 December 2005	**2,750**	**35,480**	**(2,720)**	**(4,551)**	**29**	**375**	**(24,450)**	**(18,458)**
Currency translation	-	-	-	-	3	35	(2,273)	(1,718)
At 31 December 2006	**2,750**	**35,480**	**(2,720)**	**(4,551)**	**32**	**410**	**(26,723)**	**(20,176)**

At 31 December 2006 the authorised number of ordinary and preference shares totalled 70,700 thousand and 2,750 thousand (31 December 2005: 70,700 thousand and 2,750 thousand), respectively, both with a nominal value per share of RR 0.1.

At 31 December 2006 the issued number of ordinary and preference shares totalled 35,480 thousand and 2,750 thousand. (31 December 2005: 35,480 thousand and 2,750 thousand).

Preference shares represent cumulative preferred stock without voting rights, except in certain circumstances pertaining to the liquidation or reorganization of the Company, or changes in the charter documents. They earn dividends at 12% per annum of their nominal value, and have a liquidation value of RR 0.1 per share.

Treasury shares represent ordinary and preference shares owned by subsidiaries. In accordance with the Company's corporate governance policy these shares represent non-voting stock.

At 31 December 2006 a hedging reserve recorded within equity represented the effective portion of changes in the fair value of derivatives in the amount of US$4,413 (31 December 2005: US$1,301).

A dividend was declared in 2006 in respect of 2005 to holders of preference shares of RR 0.012 per share (in 2005 in respect of 2004 RR 0.012 per share). No dividend was declared on ordinary shares during 2006 and 2005.

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2006, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was equivalent to US$15 (2005: US$125). However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount as "distributable reserves" in these financial statements.

21. Construction contracts

During 2006 the revenues and gross margin recognised on long-term-contracts amounted to:

	Continuing operations	
	2006	**2005**
Contract revenue	79,864	104,442
Contract costs	(62,534)	(85,403)
Gross margin	**17,330**	**19,039**

The Group's financial position with respect to construction contracts is disclosed in notes 9 and 16.

Construction contracts in progress:

	Continuing operations	
	2006	**2005**
Contract costs incurred and recognised profits (less losses) to date	231,537	155,262
Advances received on construction contracts	92,108	42,190

22. Cost of sales

	Continuing operations	
	2006	**2005**
Changes in inventories of finished goods and work in progress	(29,592)	(28,168)
Materials and components used	270,343	255,021
Labour costs	100,417	87,353
Gas and fuel	70,755	52,722
Services, including sub-contracting costs	81,928	107,273
Depreciation	19,036	17,558
Amortisation of intangible assets	1,799	2,003
Other	3,769	4,683
	518,455	**498,445**

23. Selling expenses

	Continuing operations	
	2006	**2005**
Transportation	10,623	8,279
Services	8,162	6,609
Labour costs	7,425	5,242
Other	1,427	1,073
	27,637	**21,203**

24. General and administrative expenses

	Continuing operations	
	2006	**2005**
Taxes	3,848	3,996
Labour costs	50,558	40,408
Amortisation of intangibles	744	761
Depreciation	672	758
Services	15,196	20,529
Administration overheads	4,684	3,224
	75,702	**69,676**

25. Other operating income and expenses

	Continuing operations	
	2006	**2005**
Profit from sales of non-core subsidiaries	-	934
Change in provision for impairment of receivables (note 9)	(1,353)	(1,593)
Change in provision for obsolete inventory (note 10)	(1,327)	5,656
Impairment reversal on property, plant and equipment (note 12)	-	1,553
Impairment charge on intangible assets (note 13)	(85)	(1,414)
Gain on disposal of property, plant and equipment	14,929	5,794
Gain on release from government financing and tax penalties	-	6,500
Write-off of accounts receivable	-	(3,321)
Other	2,262	4,750
	14,426	**18,859**

26. Finance income/(expense) -net

	Continuing operations	
	2006	**2005**
Interest expense on borrowings	(17,717)	(17,095)
Interest expense on restructured taxes payable	(31)	(88)
Interest income	1,205	627
Loss on financial assets through profit and loss	(1,560)	(743)
Foreign exchange gain (loss), net	3,567	(4,410)
	(14,536)	**(21,709)**

27. Income tax

	Continuing operations	
	2006	**2005**
Income tax expense – current	(7,408)	(4,524)
Deferred tax (expense) benefit – origination and reversal of temporary differences	(9,112)	5,659
Income tax (expense) benefit	**(16,520)**	**1,135**

The income before taxation for financial reporting purposes is reconciled to the tax expense as follows:

	Continuing operations	
	2006	**2005**
Profit before taxation and sale of discontinued operations	45,127	10,001
Theoretical tax charge at statutory rate of 24% (2005 – 24%)	10,830	2,400
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax penalties and release of government financing	-	(1,560)
Provision on repairs	2,591	-
Salary expenses	934	-
Non-deductible interest expenses	348	-
Other non-deductible expenses (income)	94	167
Non-recognised deferred tax asset movement	1,723	(2,142)
Income tax expense (benefit)	**16,520**	**(1,135)**

Most companies in the Group were subject to tax rates of 24 percent on taxable profits for 2006 and 2005 (except ŠKODA companies –26% in 2005, 24% in 2006). Deferred tax asset and liabilities are measured at the rate of 24 percent as at 31 December 2006 (31 December 2005: 24 percent).

27. Income tax (continued)

	31 December 2005	Reclassification to held-for-sale	Exchange difference	Differences recognition and reversals	31 December 2006
Tax effects of deductible temporary differences:					
Provision for impairment of property, plant and equipment	9,406	(1,583)	787	895	9,505
Provision for impairment of investments	885	(450)	66	(93)	408
Accounts payable and accruals	3,691	(322)	310	(760)	2,919
Provision for inventory	7,021	(1,164)	597	155	6,609
Accounts receivable	6,986	(2,713)	543	-	4,816
Loss carry-forward	3,649	-	394	2,275	6,318
Other	985	(17)	88	(107)	949
Tax effects of taxable temporary differences:					
Effect of applying IAS 29 on property, plant and equipment	(16,964)	3,007	(1,686)	(419)	(16,062)
Production overheads recognized for tax purposes	(10,440)	4,422	(875)	595	(6,298)
Accounts receivable recognized using percentage-of-completion method	(7,747)	3,989	(652)	(557)	(4,967)
Provision for impairment of receivables	(2,471)	2,611	(281)	(4,272)	(4,413)
Provision for repairs	-	-	(164)	(5,343)	(5,507)
Other	(2,177)	1,080	(163)	242	(1,018)
Net tax effect of temporary differences	(7,176)	8,860	(1,036)	(7,389)	(6,741)
Less non-recognised deferred tax asset	(6,898)	-	(703)	(1,723)	(9,324)
Total net deferred tax (liability)/assets	**(14,074)**	**8,860**	**(1,739)**	**(9,112)**	**(16,065)**

Comparative information for the year 2005:

	31 December 2004	Addition through acquisition of subsidiaries	Exchange difference	Differences recognition and reversals	31 December 2005
Tax effects of deductible temporary differences:					
Provision for impairment of property, plant and equipment	10,164	-	(359)	(399)	9,406
Provision for impairment of investments	785	-	(30)	130	885
Accounts payable and accruals	1,887	-	(99)	1,903	3,691
Provision for inventory	10,202	-	(319)	(2,862)	7,021
Accounts receivable	7,316	-	(262)	(68)	6,986
Loss carry-forward	3,602	70	(132)	109	3,649
Other	400	-	(24)	609	985
Tax effects of taxable temporary differences:					
Hyperinflation and fair value adjustments on property, plant and equipment	(18,869)	(614)	657	1,862	(16,964)
Production overheads recognized for tax purposes	(10,548)	(443)	383	168	(10,440)
Accounts receivable recognized using percentage-of-completion method	(9,126)	(359)	310	1,428	(7,747)
Provision for impairment of receivables	(3,608)	-	113	1,024	(2,471)
Other	(4,920)	(55)	158	2,640	(2,177)
Net tax effect of temporary differences	**(12,715)**	**(1,401)**	**396**	**6,544**	**(7,176)**
Less non-recognised deferred tax asset	(9,340)	-	300	2,142	(6,898)
Total net deferred tax (liability)/assets	**(22,055)**	**(1,401)**	**696**	**8,686**	**(14,074)**

27. Income tax (continued)

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, the deferred tax asset of one company of the Group is not offsetable against deferred tax liability of another company. As at 31 December 2006, a deferred tax asset in the amount of US$9,324 (31 December 2005: US$6,898) has not been recognised as it is not probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilised.

At 31 December 2006 the Group has not recognised a deferred tax liability in respect of US$20,674 (US$18,961 in 2005) of temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

28. Discontinued operations

On August, 1st, 2006 the Board of Directors has approved joint venture with OAO Atomenergomash. OAO OMZ contributes to joint venture 78.74% of OAO Izhorskiye Zavody and 100% of ZAO Komplekt Atom Izhora. The share of OAO OMZ in new joint venture will be 49%.

On November, 17th, 2006 the Chief Executive Officer of OAO OMZ has signed the disposal plan of OAO Izhorskiye Zavody and ZAO Komplekt Atom Izhora by the Group.

As a result of above-mentioned OAO Izhorskiye Zavody and ZAO Komplekt Atom Izhora, which is part of the nuclear segment, is presented as a discontinued operation.

An analysis of the result of discontinued operations is as follows:

	2006	**2005**
Revenue	42,718	63,892
Expenses	(90,070)	(71,400)
Profit before tax of discontinued operations	**(47,352)**	**(7,508)**
Income tax	7,230	2,601
Profit/(loss) for the year from discontinued operations	**(40,122)**	**(4,907)**

An analysis of the cash flows of discontinued operations is as follows:

	2006	**2005**
Operating cash flows	(32,667)	43,602
Investing cash flows	15,746	(2,017)
Financing cash flows	7,987	(31,989)
Effect of exchange rate changes	623	(161)
Total cash flows	**(8,311)**	**9,435**

29. Provisions for liabilities and charges

	Provision for loss-making contracts	**Provision for warranties**	**Provision for unused vacations**	**Provision for legal claims**	**Provision for spoilage**	**Other provisions**	**TOTAL**
At 31 December 2005	**2,011**	**4,388**	**3,884**	**1,154**	**445**	**1,048**	**12,930**
Reclassification to held-for-sale	-	(174)	(1,002)	-	-	-	(1,176)
Charge for year	463	1,626	5,461	91	2,273	1,284	11,198
Used during the year	(1,457)	(1,490)	(2,828)	(1,151)	(85)	(1,682)	(8,693)
Reversal of provision	-	(38)	-	-	-	-	(38)
Exchange differences	202	354	275	106	114	165	1,216
At 31 December 2006	**1,219**	**4,666**	**5,790**	**200**	**2,747**	**815**	**15,437**

29. Provisions for liabilities and charges (continued)

Provision for loss-making contracts

Provisions for expected losses on loss-making contracts are recognized when the expected revenues are lower than the expected costs to completion. It is expected that US$1,219 will be used during 2007.

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 US$4,666 (2005: US$4,388) has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns. It is expected that US$2,956 will be used during 2007, and US$1,710 during 2008.

Provision for unused vacations

Provision for unused vacations is recognized based on an individual analysis of the unused vacation per individual employees. The amount of US$2,109 is expected to be used during 2007 US$3,681 is expected to be used during 2008.

Provision for legal claims

The amounts shown comprise gross provisions in respect of certain legal claims brought against the Group by customers. The balance at 31 December 2006 of US$200 is expected to be utilised during 2007. In the opinion of the directors, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2006.

Provision for spoilage

Provision for spoilage is recognized when there is a significant probability of spoilage in the production of a new product. It is expected that US$2,747 will be used during 2007.

All of these provisions are included in the balance sheet within other payables and accrued expenses (note 16).

30. Contingencies, commitments and operating risks

Capital commitments

As at December 31, 2006 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for US$7,114 (December 31, 2005: US$2,853).

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and 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 may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

30. Contingencies, commitments and operating risks (continued)

Taxation (continued)

As at 31 December 2006 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

In particular, management assessed the impact of recent changes in the Customs Code and considers that there is a possible risk that the tax authorities can claim additional VAT of approximately US$8 million from certain export contracts which may not be treated as VAT zero-rated. Management believes that the Group position can be sustained on this matter based on their understanding of current legislation.

In particular, management consider that there is a risk that the classification of certain revenue from a single contract as zero-rated for VAT purposes, may be challenged following recent changes in the Customs Code. In the event of such a challenge being successful, additional VAT would be payable. Management believes that the Group position can be sustained based on its understanding of nature of the contract and all relevant legislation, and therefore no provision has been made for any additional liability. The potential liability is estimated at US$ 8 million (2005: US$ 8 million).

In addition, the Group is currently involved in a number of court cases relating to tax matters. The total value of the claims involved is approximately $9 million. Based on their recent experience in similar claims management does not expect any future economic outflows with respect to these claims. There are a number of additional, potentially material, possible risks where management believes that the likelihood of economic outflow is less than probable.

Insurance policies

The Group insures all significant property and work-in-progress and shipments in relation to significant contracts. As at 31 December 2006, most of the Group’s property is insured.

Environmental matters

The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group, and which have not been accrued or disclosed in these consolidated financial statements.

Guarantees

The Group has guaranteed US dollar denominated loans issued, the total amount of guarantees is US$115 (in 2005 – US$286)

The Group has guarantees provided in favour of the Group in amount of US$14,932 (in 2005 - US$17,094).

The Group borrowings and fulfilment of contract obligations were secured by third party guarantees in amount of US$25,671 (in 2005 - US$66,699).

Operating environment of the Company

Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

31. Earnings per share

Earnings per share is calculated by dividing the net income attributable to participating shareholders by the weighted average number of ordinary shares in issue during the period, excluding the average number of ordinary shares purchased by the Group and held as treasury shares (note 20).

Earnings per share from continuing operations are calculated as follows:

Basic earnings per share

	2006	2005
Weighted average number of ordinary shares outstanding (thousands)	35,480	35,480
Adjusted for weighted average number of treasury shares (thousands)	(4,551)	(4,551)
Weighted average number of ordinary shares in issue (thousands)	30,929	30,929
Profit for the year from continuing operations attributable to the Company's equity holders	**28,607**	**11,136**
Basic earnings per share	**0.92**	**0.36**

Diluted earnings per share

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	2006	2005
Weighted average number of ordinary shares in issue (thousands)	30,929	30,929
Weighted average number of dilutive preferred shares (thousands)	-	-
Weighted average number of ordinary shares for diluted earnings per share (thousands)	30,929	30,929
Profit for the year from continuing operations attributable to the Company's equity holders	**28,607**	**11,136**
Diluted earnings per share	**0.92**	**0.36**

Earnings per share from discontinuing operations are calculated as follows:

Basic earnings per share

	2006	2005
Weighted average number of ordinary shares outstanding (thousands)	35,480	35,480
Adjusted for weighted average number of treasury shares (thousands)	(4,551)	(4,551)
Weighted average number of ordinary shares in issue (thousands)	30,929	30,929
Profit for the year from discontinued operations attributable to the Company's equity holders	**(32,402)**	**(8,753)**
Basic earnings per share	**(1.05)**	**(0.28)**

Diluted earnings per share

	2006	2005
Weighted average number of ordinary shares in issue (thousands)	30,929	30,929
Weighted average number of dilutive preferred shares (thousands)	-	-
Weighted average number of ordinary shares for diluted earnings per share (thousands)	30,929	30,929
Profit for the year from discontinued operations attributable to the Company's equity holders	**(32,402)**	**(8,753)**
Diluted earnings per share	**(1.05)**	**(0.28)**

32. Principal subsidiaries

The principal subsidiaries consolidated within the Group and the share in subsidiaries held by the Group are as follows:

Entity	Country of Incorporation	Activity	2006 % of share capital	2005 % of share capital
OAO Izhorskiye Zavody (“Izhorskiye Zavody”)	Russia	Production of equipment for nuclear power plants and mining equipment	80.1	80.1
OAO Ural Heavy Machine-Building Plant (“Uralmash”)	Russia	Production of drilling, mining and metallurgical equipment	74.2	74.2
OOO OMZ SpecStal (“SpecStal”)	Russia	Production of specialty steels	100	100
OOO OMZ Gornoe oborudovanie i tehnologii («GoiT»)	Russia	Engineering and sales of mining equipment	100	100
ZAO Komplekt Atom Izhora	Russia	Engineering and installation of nuclear power plant equipment	100	100
OOO OMZ Sibir	Russia	Sales of mining equipment	100	100
OOO OMZ	Russia	Corporate services	100	100
ŠKODA JS a.s.	Czech Republic	Production of equipment for nuclear power plants	100	100
ŠKODA Hute	Czech Republic	Production of specialty steels	100	100
ŠKODA Kovarny	Czech Republic	Production of specialty steels	100	100
OOO OMZ-Kran	Russia	Engineering and sales of handling equipment	100	100
OOO Kartex	Russia	Production of mining equipment	100	100
OOO IZ-ZMK	Russia	Production of steel construction	100	100
OOO UralmashSpecstal	Russia	Production of specialty steels	100	100

33. Financial risk management

Credit risk

Financial assets, which potentially subject the Group’s entities to credit risk, consist principally of accounts receivable. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

Foreign exchange risk

The Group exports production to foreign countries and attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets and liabilities give rise to foreign exchange exposure.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group’s operations, except for the ŠKODA companies. However, management believes that the Group is secured from foreign exchange risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings. ŠKODA companies apply the hedging of future cash flows, using financial derivative contracts.

Interest rate risk

The Group’s income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long-term borrowings are fixed, these are disclosed in note 17. The Group has no significant interest-bearing assets.

34. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading and available-for-sale investments and financial derivatives, including those classified as non-current assets held for sale are carried on the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost, which approximates current fair value.

Fair values were determined based on quoted market prices except for certain investment securities available for sale for which there were no available external independent market price quotations. These securities have been fair valued by the Group on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Valuation techniques required certain assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate fair values.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative.

35. Post balance sheet events

On November 20, 2006 the Board of directors of OAO OMZ has made a decision on creation of joint venture with ZAO Metallinvest. It will include 73,94% of OAO UZTM, 100% of OOO UralmashSpetstal, 100% of OOO OMZ DRO and 100 % of OMZ-Kran and 100% "ORMETO-UUMZ".

On February 8, 2007 the Chief Executive of OAO OMZ and ZAO Metallinvest have signed the "Assets combination project schedule of OAO OMZ and ZAO Metallinvest to create Joint venture" and the main conditions between OAO OMZ and ZAO Metallinvest.

On the basis of an estimation prepared by the independent appraiser, cost of a share holding of OAO "UZTM", including OOO " UralmashSpezstal", OOO OMZ DRO and OMZ-Kran, which will be transferred in joint venture by OMZ, is $125 million, and costs of share holding "ORMETO-UUMZ" transferred by ZAO Metallinvest - $100 million an $25 million will be transferred by cash. Share in the new company will be distributed between the parties б at 50% x 50% each.

On February 12, 2007 OMZ repaid the Credit-linked notes issued by ING Bank in amount of US$36,645.