



**2004 annual
IFRS financial results**

2004 results - macroeconomic context

- **Negative factors**

- High inflation
- Ruble appreciation in real terms
- Significant increase in raw material prices (ferro-alloys)

- **Positive factors**

- Considerable growth in demand for our products due to high commodities prices

Income statement highlights

| \$mIn | 2004 | % | 2003 | % | Change | % | Including: | | | |
|----------------------------|--------------|-------|--------------|------|--------------|--------------|------------|--------|----------|-------------|
| | | | | | | | Organic | Forex | Disposal | Acquisition |
| Sales | 523.8 | 100% | 340.1 | 100% | 183.7 | +54% | 87.5 | 15.9 | (9.8) | 90.1 |
| Gross profit | 102 | 19.5% | 104.8 | 31% | (2.8) | -3% | (4.6) | (2.9) | (4.2) | 8.9 |
| EBITDA | 39.5 | 7.5% | 32.4 | 9.5% | 7.1 | +22% | 3.3 | (7.6) | 5.8 | 5.6 |
| EBIT | 21.8 | 4.2% | 24.6 | 7.2% | (2.8) | -11% | 1.4 | (8.3) | 5.8 | (1.7) |
| Profit for the year | 61 | 11.6% | 16.4 | 4.8% | 44.6 | +272% | (12.5) | (10.8) | (43.3) | 111.2 |

Pro-forma P&L excluding MNP and including Skoda for full year

| \$mIn | 2004 | % |
|----------------------------|--------------|--------------|
| Sales | 626.6 | 100% |
| Gross profit | 103.4 | 16.5% |
| EBITDA | 41.1 | 6.6% |
| EBIT | 16.5 | 2.7% |
| Profit for the year | 107.4 | 17.2% |

Change in sales by segment

| \$mIn | 2004 | 2003 | Change | % | Including: | | | |
|---------------------------------------|--------------|--------------|--------------|-------------|-------------|-------------|--------------|-------------|
| | | | | | Organic | Forex | Disposal | Acquisition |
| NPPEQ | 146.0 | 117.6 | 28.4 | +24% | (0.3) | 0.2 | - | 28.5 |
| STEEL | 180.5 | 103.3 | 77.2 | +75% | 15.7 | 7.3 | - | 54.2 |
| MMEQ | 160.1 | 105.2 | 54.9 | +52% | 51.9 | 6.6 | (3.6) | - |
| MINEQ | 96.3 | 46.5 | 49.8 | +107% | 44.0 | 5.8 | - | - |
| Other | 105.3 | 100.7 | 4.6 | +4.6% | (0.5) | 6 | (8.9) | 8 |
| <i>Intersegment & unallocated</i> | (164.4) | (133.2) | (31.2) | 23.4% | (23.2) | (10.1) | 2.7 | (0.6) |
| Total | 523.8 | 340.1 | 183.7 | +54% | 87.6 | 15.8 | (9.8) | 90.1 |

International sales

| Geographic area | 2004 | 2003 |
|------------------------|--------------|--------------|
| Russia | 252.0 | 203.8 |
| CIS | 31.7 | 9.7 |
| Asia | 157.4 | 108.7 |
| Europe | 81.2 | 14.2 |
| Other | 1.5 | 3.7 |
| TOTAL | 523.8 | 340.1 |
| % of int'l sales | 52% | 40% |

Reasons for sales growth

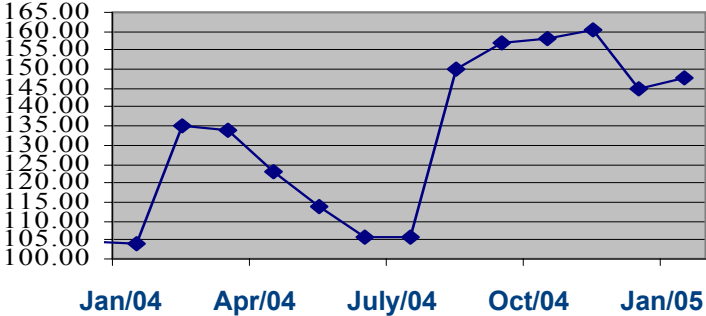
- NPPEQ
 - Acquisition of Skoda JS
- STEEL
 - Acquisition of Skoda Steel
 - Overall higher demand for specialty steel products, especially from China
- MINEQ
 - Significant increase in demand for original equipment by Russian mining companies due to considerable increase in commodity prices
- MMEQ
 - Several large orders incl. oil drilling equipment for the Syrian Petroleum Company and a continuous casting machine for Mechel

Cost of sales

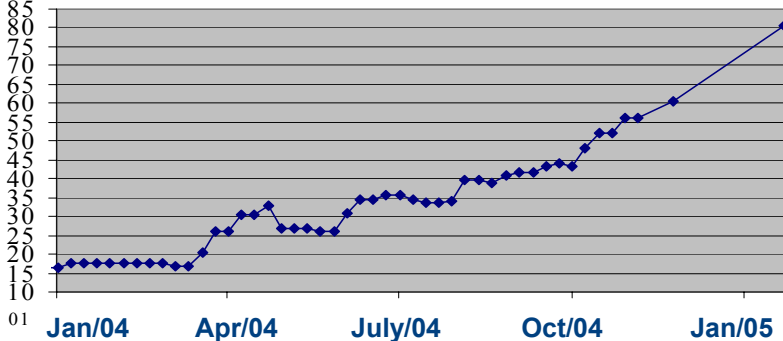
| \$mIn | 2004 | | 2003 | | Change | % | Including: | | | |
|--------------------------------------|---------------|--------|--------------|--------|---------------|--------------|--------------|--------------|---------------|--------------|
| | | | | | | | Organic | Forex | Disposal | Acquisition |
| Sales | 523.8 | | 340.1 | | 183.7 | +54% | | | | |
| Materials and components used | 246.3 | 55% | 102.4 | 42% | 143.9 | +141% | 96.9 | 15.1 | (0.6) | 32.5 |
| Labour costs | 72.0 | 16% | 67.8 | 28% | 4.2 | +6% | (2.6) | 4.5 | (5.7) | 8.0 |
| Gas and fuel | 53.2 | 12% | 38.3 | 15.5% | 14.9 | +39% | 2.9 | 3.3 | (1.4) | 10.1 |
| Services | 40.4 | 9% | 19.2 | 8% | 21.2 | +110% | 3.0 | 2.5 | - | 15.7 |
| Depreciation | 14.5 | 3.3% | 7.4 | 3% | 7.1 | +96% | 0.4 | 0.9 | - | 5.8 |
| Amortization of intangibles | 1.0 | - | - | - | 1.0 | - | - | - | - | 1.0 |
| Amortization of neg. goodwill | (1.3) | (0.3%) | (1.1) | (0.5%) | (0.2) | -18% | (0.1) | (0.1) | - | - |
| Other | 21.0 | 5% | 9.2 | 4% | 11.8 | +128% | (0.9) | 1.3 | (1.6) | 13.0 |
| Cost of production | 447.1 | 100% | 243.2 | 100% | 203.9 | +84% | 99.6 | 27.5 | (9.3) | 86.1 |
| Change in inven. of fin. goods & WIP | (25.3) | | (7.9) | | (17.4) | | (9.9) | (1.5) | (1.0) | (5.0) |
| Cost of sales | 421.8 | | 235.3 | | 186.5 | +79% | 89.7 | 26.0 | (10.3) | 81.1 |

Increase in metals prices hurt us

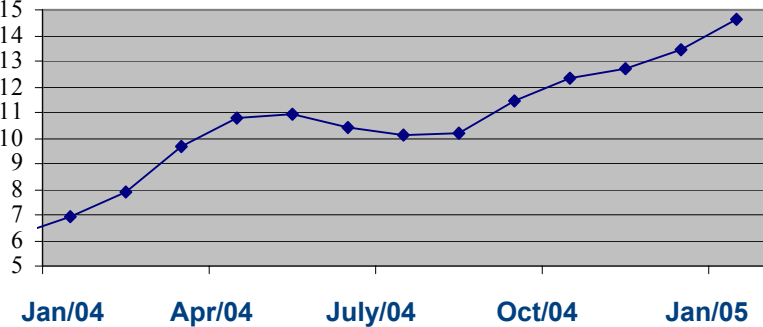
Scrap metal prices, ex-VAT, US\$/ton



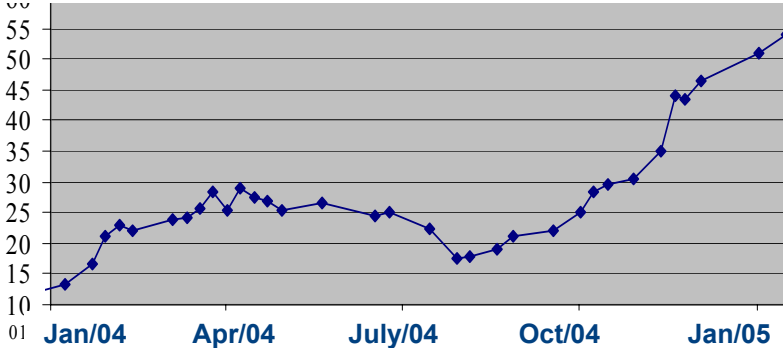
Prices of ferromolybdenum, LME spot, US\$/kg



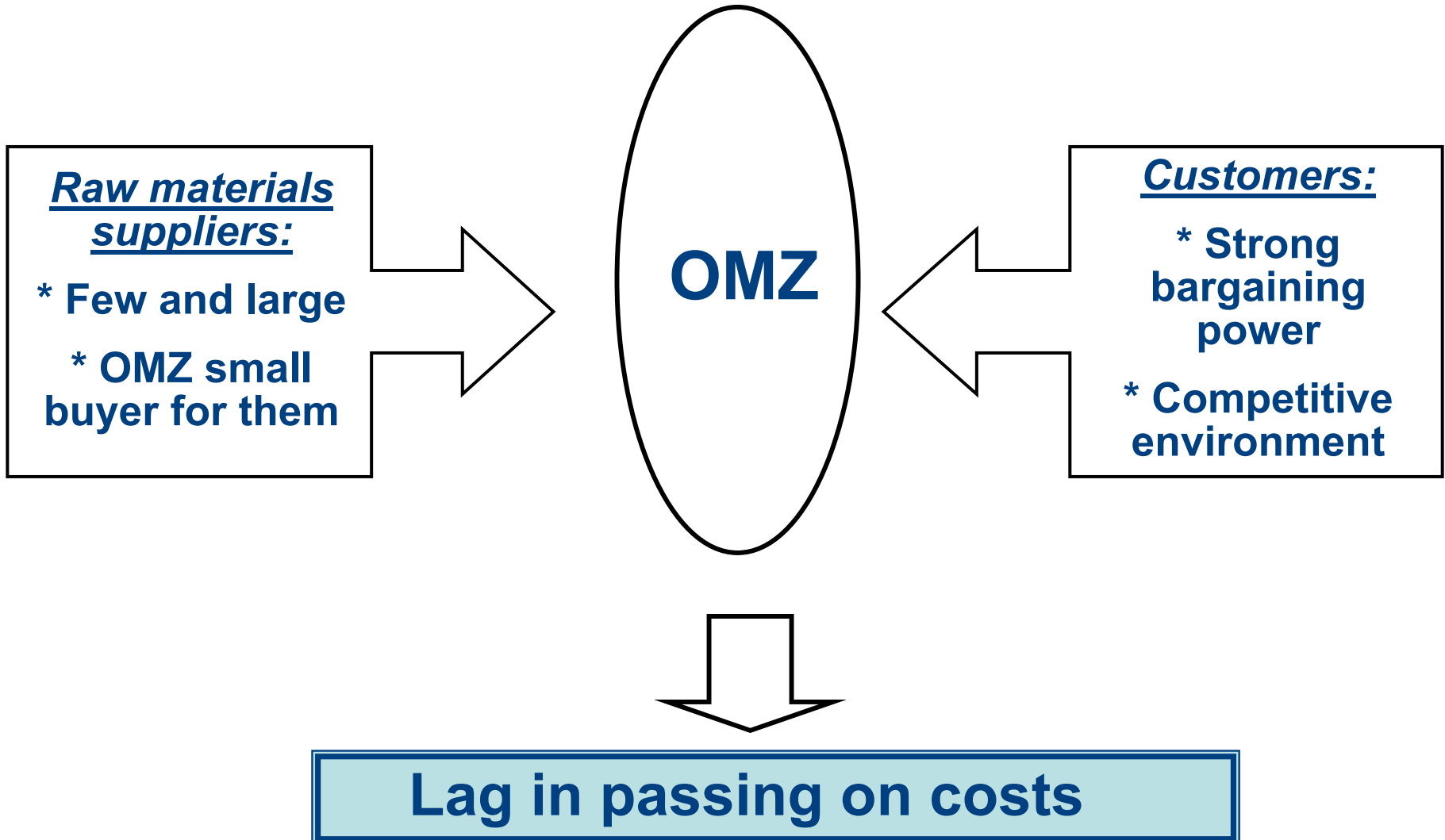
Prices of ferrotitanium, US\$/kg



Prices of ferrovanadium, LME spot, US\$/kg



Our ability to pass on costs was limited



Group profitability

| Million US\$ | 2004 | 2003 |
|--|-------------|-------------|
| Operating profit before negative goodwill | 11.4 | 31.8 |
| Less gain from release of government tax penalties | (9.6) | (2.7) |
| Plus (minus) impairment of PP&E | 13.9 | (7.3) |
| Plus impairment of intangible assets | 6.1 | 2.8 |
| Plus depreciation & amortization | 17.7 | 7.8 |
| Total EBITDA | 39.5 | 32.4 |
| Minus depreciation & amortization | (17.7) | (7.8) |
| Total EBIT | 21.8 | 24.6 |
| Finance income/(expense) - net | 2.4 | (12.6) |
| Total EBT | 24.2 | 12 |

Other operating income/expenses

| Million US\$, note 26 | 2004 | Description | Reflected in segment (2004) | 2003 |
|--|-------------|---|--|-------------|
| Profit from sale of non-core subs | 21.4 | GTEK, ZSMK, Izhora-Energosbit, Instrument | Unallocated items (see segment report) | 14.7 |
| Change in provision for impairment of receivables and obsolete inventory | (5) | Write-off of receivables and inventory | Across segments (see segment report) | (2.6) |
| Impairment (charge)/release on PP&E | (13.9) | Uralmash (decrease in projected cash-flows) | MMEQ | 7.3 |
| Impairment (charge) of intangible assets | (6.1) | Goodwill impairment (Uralmash + OMZ Sibir) | MMEQ & MINEQ | (2.8) |
| Gain on disposal of PP&E | 6.8 | Sale of non-core assets (Uralmash & Izhora) | MMEQ & NPPEQ | 3.1 |
| Gain from release of government tax penalties | 9.6 | Write-off of tax liabilities (Uralmash) | MMEQ | 2.7 |
| Other | 0.9 | | | 2.5 |
| Total | 13.7 | | | 24.9 |

Profitability by segment

| | 2004 | | | | 2003 | | | |
|---------------------------------------|--------------|--------------|------------------|-------------|--------------|--------------|------------------|-------------|
| \$mn | Sales | Gross profit | Operating profit | EBITDA | Sales | Gross profit | Operating profit | EBITDA |
| NPPEQ | 146.0 | 34.0 | 10.0 | 13.0 | 117.6 | 47.5 | 20.7 | 22.7 |
| STEEL | 180.5 | 18.2 | (2.4) | 6.3 | 103.3 | 12.0 | 1.1 | 2.6 |
| MMEQ | 160.1 | 19.3 | (23.6) | (2.3) | 105.2 | 15.8 | (0.7) | (6.3) |
| MINEQ | 96.3 | 15.9 | 3.3 | 3.4 | 46.5 | 10.9 | 2.8 | 2.8 |
| Other | 105.3 | 16.5 | 1.2 | 5.8 | 100.7 | 16.7 | 2.3 | 7.7 |
| <i>Intersegment & unallocated</i> | (164.4) | (1.9) | 136.8 | 13.3 | (133.2) | 1.9 | 5.6 | 2.9 |
| Total | 523.8 | 102.0 | 125.3 | 39.5 | 340.1 | 104.8 | 31.8 | 32.4 |

Change in profitability by segment

| | Gross margin | | | EBITDA margin | | | Operating margin | | |
|--------------|--------------|------|-----|---------------|------|-----|------------------|------|-----|
| \$mn | 2004 | 2003 | +/- | 2004 | 2003 | +/- | 2004 | 2003 | +/- |
| NPPEQ | 23% | 40% | - | 9% | 19% | - | 7% | 18% | - |
| STEEL | 10% | 12% | - | 4% | 3% | + | (1%) | 1% | - |
| MMEQ | 12% | 15% | - | (1%) | (6%) | + | (15%) | 0% | - |
| MINEQ | 16% | 23% | - | 4% | 6% | - | 3% | 6% | - |
| Other | 16% | 17% | - | 6% | 8% | - | 1% | 2% | - |

Change in EBITDA by segment

| \$mIn | 2004 | 2003 | Change | % | Including: | | | |
|---------------------------------------|-------------|-------------|------------|-------------|------------|--------------|------------|-------------|
| | | | | | Organic | Forex | Disposal | Acquisition |
| NPPEQ | 13.0 | 22.7 | (9.7) | -43% | (9.9) | (6.1) | - | 6.3 |
| STEEL | 6.3 | 2.6 | 3.7 | +142% | 4.3 | - | - | (0.6) |
| MMEQ | (2.3) | (6.3) | 4.0 | +63% | 5.3 | (1.5) | 0.2 | - |
| MINEQ | 3.4 | 2.8 | 0.6 | +21% | 0.4 | 0.2 | - | - |
| Other | 5.8 | 7.7 | (1.9) | -25% | (1.0) | 0.3 | (1.2) | - |
| <i>Intersegment & unallocated</i> | 13.3 | 2.9 | 10.4 | +358% | 4.4 | (0.7) | 6.7 | - |
| Total | 39.5 | 32.4 | 7.1 | +22% | 3.5 | (7.8) | 5.7 | 5.7 |

Reasons for margin decrease

- NPPEQ
 - a) reassessment of cost to complete contracts based on growth of raw materials costs; b) revision of revenue due to changes in forward rates and c) completion of certain contracts – recognition of loss in last reporting period due to final total calculation of expenses
 - Re-sale of low margin equipment
- STEEL
 - Lag in passing-on rising raw material costs
 - High depreciation at Skoda Steel due to high value of non-current assets
- MINEQ
 - Higher %-age of original equipment (margin on OE lower than on spare parts)
 - Lag in passing-on rising raw material costs
- MMEQ
 - Lack of management – wrong pricing of contracts

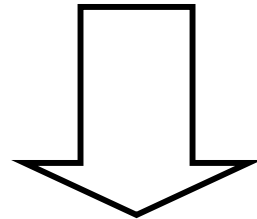
Uralmash – non cash losses

Out of \$23.6mn operating loss at MMEQ, \$17mn relates to non-cash impairments

| MMEQ, other operating income, Million US\$ | 2004 |
|---|---------------|
| Impairment of fixed assets | (14.1) |
| Impairment of intangibles | (3.8) |
| Gain on sale of non-core assets | 1.3 |
| Provision on inventory and other | (0.4) |
| Total | (17.0) |

Management was limited in its efforts

Management took over an order book which had already been contracted with little or no opportunity for re-negotiating prices



We focused on managing costs with success in several areas

SG&A

| \$mIn | 2004 | | 2003 | | Change % | | Including: | | | |
|-----------------------------|--------------|-------------|-------------|-------------|--------------|--------------|--------------|------------|--------------|-------------|
| | | | | | | | Organic | Forex | Disposal | Acquisition |
| Taxes | 6.7 | 8.1% | 9.4 | 11% | (2.7) | -28.7% | (3.0) | 0.4 | (0.2) | 0.1 |
| Labour costs | 45.3 | 54.5% | 41.6 | 48.5% | 3.7 | +8.9% | 1.4 | 2.7 | (1.9) | 1.5 |
| Amortization of intangibles | 1.1 | 1.3% | - | - | 1.1 | - | 1.0 | - | - | 0.1 |
| Depreciation | 2.3 | 2.8% | 1.5 | 1.7% | 0.8 | +53% | 0.3 | 0.1 | - | 0.4 |
| Services | 20.0 | 24.1% | 26.5 | 31% | (6.5) | -24.5% | (7.6) | 1.0 | (0.8) | 0.9 |
| Administration overheads | 7.6 | 9.2% | 6.8 | 7.8% | 0.8 | +11.8% | (0.7) | 0.6 | (0.1) | 1.0 |
| Total G&A | 83.0 | 100% | 85.8 | 100% | (2.8) | -3.3% | (8.6) | 4.8 | (3.0) | 4.0 |
| Transportation | 6.6 | 31.3% | 3.3 | 27.1% | 3.3 | +100% | 0.7 | 0.2 | - | 2.4 |
| Services | 11.0 | 52.1% | 6.9 | 56.6% | 4.1 | +59% | 3.3 | 0.6 | (0.3) | 0.5 |
| Labour costs | 2.7 | 12.3% | 0.7 | 5.7% | 2.0 | +285% | 0.7 | 0.2 | - | 1.1 |
| Other | 0.9 | 4.3% | 1.3 | 10.6% | (0.4) | -30% | (0.9) | - | - | 0.5 |
| Total Selling | 21.2 | 100% | 12.2 | 100% | 9.0 | +73% | 3.8 | 1.0 | (0.3) | 4.5 |
| Total SG&A | 104.2 | | 98.0 | | 6.2 | +6.3% | (4.8) | 5.8 | (3.3) | 8.5 |

Cost cutting vs ruble appreciation

Ruble appreciation weakened the effect of our cost-cutting efforts

| \$mIn | 2004 | 2003 | Change | % | Organic component | |
|------------|-------|------|--------|-------|-------------------|-------|
| G&A | 83.0 | 85.8 | (2.8) | -3.3% | (8.6) | -10% |
| Selling | 21.2 | 12.2 | 9.0 | +73% | 3.8 | +31% |
| Total SG&A | 104.2 | 98.0 | 6.2 | +6.3% | (4.8) | -4.9% |

Working capital optimization

- For the first time OMZ has a positive cash-flow from operations after changes in working capital
- Initiatives for optimization of working capital:
 - Review of norms for WC requirements
 - Limits for WC established
 - Obsolete inventories identified and a plan for sale developed
 - Overhaul of the purchasing departments at Uralmash and Izhora

Change in working capital

| \$mIn | 2004 | 2003 | Change | % | Including: | | | |
|--|--------------|--------------|--------------|-------------|-------------|------------|-------------|--------------|
| * Excl. financial and investing activities | | | | | Organic | Forex | Disposal | Acquisition |
| Cash | 24 | 8 | 16 | +200% | - | - | (3) | 19 |
| Trade receivables | 221 | 133 | 88 | +66% | 57 | 2 | (1) | 30 |
| Advances issued | 104 | 46 | 58 | +126% | 14 | 2 | (1) | 43 |
| Taxes receivable | 73 | 63 | 10 | +16% | (1) | 4 | (4) | 11 |
| Other receivables* | 4 | 5 | (1) | -20% | (2) | - | - | 1 |
| Raw materials | 43 | 41 | 2 | +5% | (9) | 1 | (1) | 11 |
| Work in progress | 64 | 54 | 10 | +19% | (13) | 2 | (1) | 22 |
| Finished goods | 37 | 32 | 5 | +16% | 2 | 2 | - | 1 |
| Goods in transit | 1 | 6 | (5) | -83% | (5) | - | - | - |
| Current assets | 571 | 388 | 183 | +47% | 43 | 13 | (11) | 138 |
| Trade payables | (158) | (33) | (125) | +379% | (29) | - | - | (96) |
| Advances rec'd | (175) | (133) | (42) | +32% | (39) | 3 | - | (6) |
| Taxes payable | (46) | (43) | (3) | +7% | 1 | (3) | - | (1) |
| Other payables* | (30) | (15) | (15) | +100% | 1 | (1) | 2 | (17) |
| Current liab. | (409) | (224) | (185) | +83% | (66) | (1) | 2 | (120) |
| NET WC | 162 | 164 | (2) | -1% | (23) | 12 | (9) | 18 |

Key Ratios

| Turnover (days) | 31 Dec. 2004 | 31 Dec. 2003 |
|---------------------------|---------------------|---------------------|
| Inventories | 123 | 195 |
| Trade accounts receivable | 177 | 149 |
| Trade accounts payable | 207 | 229 |
| Net WC (excl. cash) | 122 | 124 |

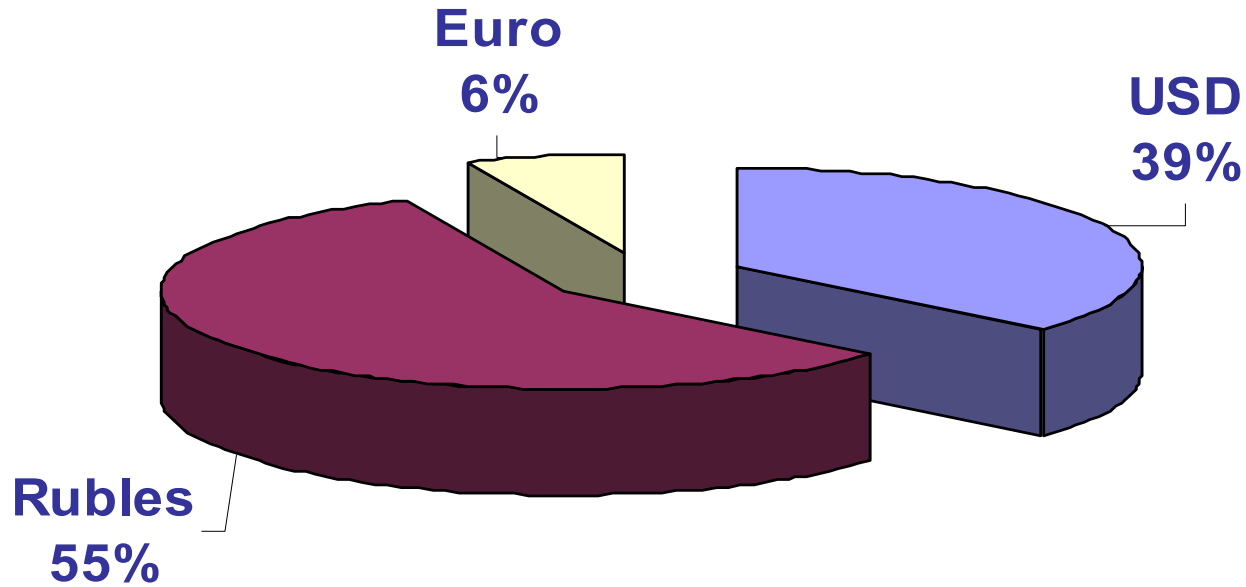
Debt and interest dynamics

| \$mIn | 31 December'04 | | 31 December'03 | |
|--|----------------|-------------|----------------|-------------|
| Long-term debt (incl. non-convertible bonds) | 97.4 | 44% | 43.5 | 18% |
| Short-term debt | 122.0 | 56% | 195.0 | 82% |
| Total debt | 219.4 | 100% | 238.5 | 100% |
| | 2004 | | 2003 | |
| Average debt | 229.0 | | 174.3 | |
| Interest expense | 26.6 | | 20.5 | |
| Effective interest rate | 11.6% | | 11.8% | |
| EBITDA to interest expense | 1.5 | | 1.6 | |

Debt portfolio – cost and duration

| | 1-Jan-05 | 10-June-05 |
|---|-----------------|-------------------|
| Average duration of debt portfolio | 286 days | 292 days |
| <u>Cost of debt:</u> | | |
| US Dollars | 7.88% | 8.95% |
| Rubles | 10.53% | 10.53% |
| Euro | 7.14% | 7.01% |

Debt portfolio – currency structure as of 10 June '05



Debt portfolio - repayment schedule as of 10 June '05

| Repayment period | Amount to be repaid, million US\$ |
|------------------|-----------------------------------|
| Q2'05 | 7.3 |
| Q3'05 | 61.7* |
| Q4'05 | 51.7 |
| Q1'06 | 42.7 |
| Q2'06 | 17.6 |
| Q3'06 | 8.7 |
| Q4'06 | 6.3 |
| Q1'07+ | 60.6 |
| TOTAL | 256.6 |

* Incl. ~\$30mn of 2009 ruble bonds due to put-option in Sept. 2005

Liquidity as of 10 June '05

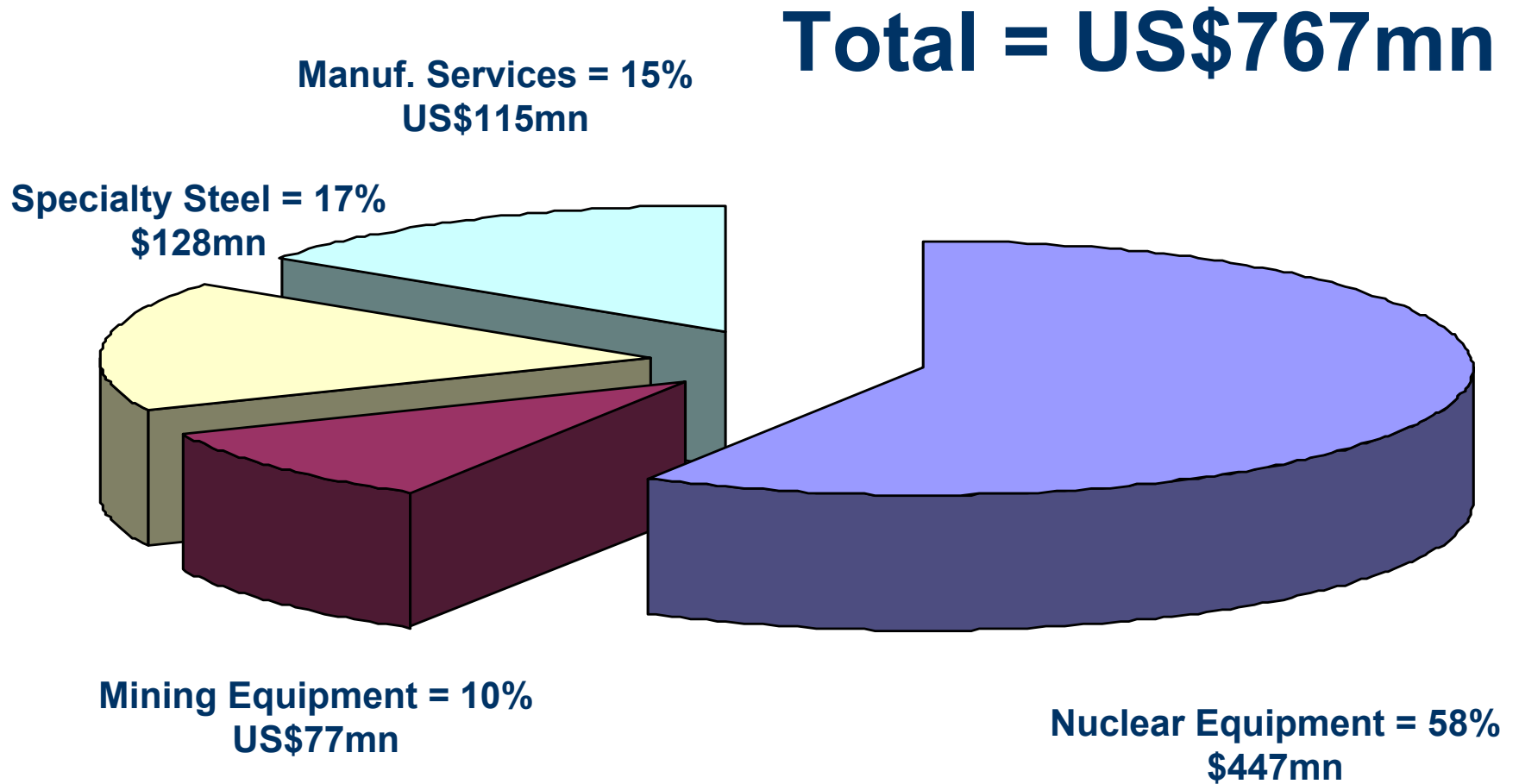
US\$ million

| | |
|----------------------|--------------|
| Cash in bank | 22.7 |
| Deposits | 20.1 |
| Unused credit lines | 19.2 |
| Unused credit limits | 70.8 |
| Total | 132.8 |

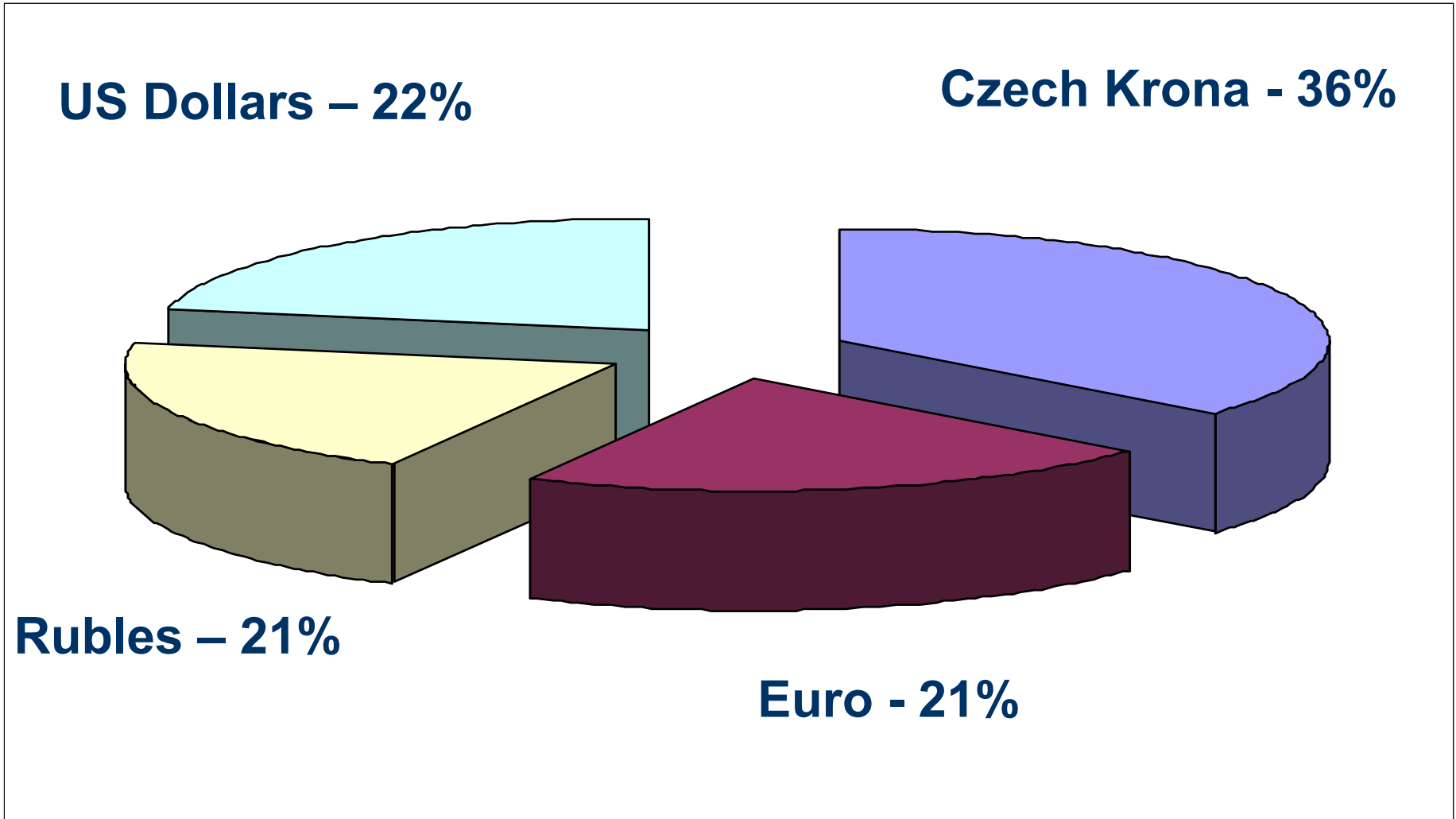
2005 debt dynamics to date

| | |
|--|-------|
| Debt as of 31 December 2004 | 219.4 |
| - Debt refinanced | 58.6 |
| + Debt taken on incl. | 95.8 |
| Due from sales of non-core during 2004 | 9 |
| Due to ASE non-payment (net effect \$22mn) | 45 |
| Skoda (last pmt.) | 21 |
| Debt as of 10 June 2005 | 256.6 |

Order book as of 1 April 2005



Currency structure of order book



Maturity of the order book

| US\$, mn | 2005 | 2006 | 2007 | 2008 | '09-'14 | Total | Weighted average duration, months |
|-----------------|-------------|-------------|-------------|-------------|----------------|--------------|--|
| MINEQ | 69 | 8 | - | - | - | 77 | 4 |
| NPPEQ | 187 | 94 | 65 | 46 | 55 | 447 | 17 |
| STEEL | 125 | 3 | - | - | - | 128 | 2 |
| MMEQ | 96 | 19 | - | - | - | 115 | 6 |
| TOTAL | 477 | 124 | 65 | 46 | 55 | 767 | 12 |

Q1'05 preliminary results by segment

| | Q1 2005 | | | 2004 |
|---------------------------------------|--------------|--------------|-----------------|-----------------|
| \$mn | Sales | Gross profit | Gross margin, % | Gross margin, % |
| NPPEQ | 26.0 | 5.6 | 21.5% | 23% |
| STEEL | 75.6 | 10.3 | 13.6% | 10% |
| MMEQ | 30.7 | 4.0 | 13.0% | 12% |
| MINEQ, of which | 29.2 | 5.9 | 20.2% | 16% |
| <i>Original Equipment</i> | 19.9 | 3.5 | 17.6% | |
| <i>Spare parts</i> | 9.3 | 2.4 | 25.8% | |
| Other | 13.3 | 1.3 | 9.7% | 16% |
| <i>Intersegment & unallocated</i> | (42) | (0.5) | | |
| Total | 132.8 | 26.6 | 20% | 19.5% |

OMZ 2005 budget by business segment

| Division/ key numbers | Nuclear Equip. | Mining Equip. | Specialty Steel | Manuf. Services + Other | TOTAL |
|---|---------------------------|--------------------------|----------------------------|--|--------------|
| Sales (before consolidation) | 267 | 138 | 257 | 216 | 878 |
| External sales | 267 | 138 | 214 | 141 | 760 |
| Bus. Segment EBITDA | 30 | 14 | 27 | 7 | 78 |
| Group EBITDA | - | - | - | - | 65 |

Sale of non-core subs

| Sold in 2004 | Sale price, US\$ mn | Profit from sale | Cash received as of June'05 |
|---------------------|--------------------------------|-----------------------------|--|
| Instrument | 7 | 4.4 | 7 |
| GTEK | 10 | 6 | 8.5 |
| ZSMK | 4.5 | 5.3 | 4.5 |
| Energosbit | 8 | 4 | 1.4 |
| Other | 3 | 1.6 | 1.5 |
| Total '04 | 32.7 | 21.3 | 22.9 |

To be sold in 2005

| | | |
|---|-----|----|
| Zarubezhenergoproekt | 2 | NA |
| Equipment and real estate - <u>Izhora</u> | 6.5 | NA |
| Equipment and real estate - <u>Uralmash</u> | 12 | NA |

Opportunities for margin growth

- 2005 target for personnel reductions – 30% of middle management at Uralmash and Izhora
- Further working capital optimization
- Further non-core asset sales
- Cost pass-on contracts with customers
- Increase in outsourcing
- Business process optimization
- Increase sales of higher-margin services and spare parts