OMZ

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

The year ended 31 December 2007

Contents

INDEPENDENT AUDITOR'S REPORT

Consolidated Balance Sheet 1
Consolidated Income Statement 2
Consolidated Cash Flow Statement 3
Consolidated Statement of Changes in Equity 4

Notes to the Consolidated Financial Statements

1. The OMZ Group and its Operations 5
2. Summary of Significant Accounting Policies 6
3. Critical Accounting Estimates and Judgements in Applying Accounting Policies 15
4. Adoption of New or Revised Standards and Interpretations 16
5. New Accounting Pronouncements 17
6. Changes in Comparative Information 19
7. Segment Information 20
8. Balances and Transactions with Related Parties 24
9. Cash and Cash Equivalents 24
10. Trade and Other Receivables 25
11. Inventories 26
12. Other Current Assets 26
13. Property, Plant and Equipment 27
14. Intangible Assets 28
15. Other Non-Current Assets 29
16. Non-Current Assets Held for Sale 30
17. Trade and Other Accounts Payable 30
18. Borrowings 31
19. Long-Term Taxes Payable 32
20. Other Long-Term Liabilities 32
21. Equity 33
22. Construction Contracts 33
23. Cost of Sales 34
24. Selling Expenses 34
25. General and Administrative Expenses 34
26. Other Operating Income, Net 34
27. Finance Cost, Net 35
28. Income Tax 35
29. Discontinued Operations 37
30. Provisions for Liabilities and Charges 38
31. Contingencies, Commitments and Operating Risks 39
32. Earnings per Share 39
33. Principal Subsidiaries 40
34. Business Combinations and Disposals 41
35. Financial Risk and Capital Management 43
36. Fair Value of Financial Instruments 48
37. Reconciliation of Classes of Financial Instruments with Measurement Categories 49
38. Post Balance Sheet Events 50

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001
www.pwc.ru

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OMZ:

1 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 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 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

3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as discussed in the Basis for Qualified Opinion paragraph 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.

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

5 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

6 IAS 24 "Related Party Disclosures" requires that an entity shall disclose the name of its ultimate controlling party, if any. We were unable to satisfy ourselves whether there is an ultimate controlling party and therefore whether such disclosure is required in the accompanying consolidated financial statements. Because of this matter we were unable to determine the sufficiency of the disclosure in Note 8 with respect to balances with related parties as of 31 December 2007 and related party transactions for the year then ended.

Qualified Opinion

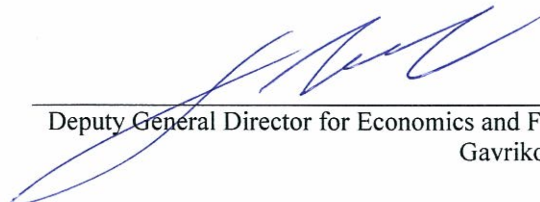
7 In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
4 March 2009

OMZ

	Note	31 December 2007	31 December 2006 (Restated)
ASSETS			
Current assets:			
Cash and cash equivalents	6, 9	57,300	32,939
Trade and other receivables	6, 10	387,746	211,907
Inventories	11	242,538	194,597
Other current assets	12	5,509	1,901
		693,093	**441,344**
Non-current assets held for sale	6, 16	-	206,749
Total current assets		**693,093**	**648,093**
Non-current assets:			
Property, plant and equipment	13	264,172	183,956
Intangible assets	14	49,246	40,896
Deferred tax asset	28	13,504	14,245
Investments accounted for using equity method	34	95,218	-
Other non-current assets	15	135,191	119,933
Total non-current assets		**557,331**	**359,030**
Total assets		**1,250,424**	**1,007,123**
LIABILITIES			
Current liabilities:			
Trade and other payables	6, 17	421,117	257,135
Provisions for liabilities and charges	6, 30	6,677	9,647
Short-term borrowings	6, 18	164,651	111,346
		592,445	**378,128**
Liabilities directly associated with non-current assets held for sale	6, 16	-	238,230
Total current liabilities		**592,445**	**616,358**
Non-current liabilities:			
Long-term borrowings	6, 18	256,348	149,178
Long-term taxes payable	19	3,111	5,828
Deferred tax liability	28	28,824	30,310
Other long-term liabilities	20	13,364	134
Total non-current liabilities		**301,647**	**185,450**
Total liabilities		**894,092**	**801,808**
EQUITY			
Equity and reserves attributable to the Company's equity holders:			
Share capital	21	474	442
Share premium		117,661	109,686
Treasury shares	21	(50,311)	(46,899)
Hedging reserve		6,580	4,413
Currency translation reserve		24,823	14,825
Retained earnings		236,758	100,445
		335,985	**182,912**
Minority interest		20,347	22,403
Total equity		**356,332**	**205,315**
Total liabilities and equity		**1,250,424**	**1,007,123**

General Director
Danilenko V.G.



Deputy General Director for Economics and Finance
Gavrikov G.G.

4 March 2009

The accompanying notes on pages 5 to 51 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2007	Year ended 31 December 2006 (Re-presented)
Sales		960,156	709,749
Cost of sales	23	(764,466)	(586,796)
Gross profit		**195,690**	**122,953**
Selling expenses	24	(38,758)	(31,206)
General and administrative expenses	25	(100,189)	(89,212)
Other operating income, net	26	103,225	21,020
Operating profit		**159,968**	**23,555**
Finance costs, net	27	(21,493)	(25,780)
Loss from joint venture		(8,013)	-
Profit/(loss) before taxation		**130,462**	**(2,225)**
Income tax expenses	28	(10,146)	(9,290)
Profit/(loss) for the year		**120,316**	**(11,515)**
Attributable to:			
Equity holders of the Company		123,853	(3,795)
Minority interest		(3,537)	(7,720)
Profit/(loss) for the year		**120,316**	**(11,515)**
Earnings per share attributable to the equity holders of the Group (in US dollars)			
- basic	32	4.004	(0.123)
- diluted	32	4.004	(0.123)

The accompanying notes on pages 5 to 51 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2007	Year ended 31 December 2006 (Re-presented Restated)
Cash flows from operating activities			
Profit/(loss) before taxation		130,462	(2,225)
Adjustments for:			
Depreciation and amortization		24,086	22,251
Change in provisions for impairment and other provisions	26	22,626	5,595
Net gain on disposal of subsidiaries	34	(138,469)	-
Gain on forgiveness of the debt to the budget	26	(5,999)	-
Impairment (release) on property, plant and equipment	26	(408)	-
Impairment charge on intangible assets	26	-	85
Loss/ (Gain) from disposal of property, plant and equipment	26	488	(21,859)
Loss from jointly controlled entities	34	8,013	-
Loss on acquisition of financial assets	26	12,609	-
Net finance cost adjusted for foreign exchange differences	27	26,756	26,249
Unrealised foreign exchange effect on non-operating items		(5,263)	(5,257)
Operating cash flows before working capital changes		**74,901**	**24,839**
Increase in accounts receivable and prepayments		(124,454)	(48,357)
Increase in inventories		(69,791)	(27,977)
Increase in trade and other accounts payable		145,160	46,081
Change in working capital of discontinuing operations		-	12,573
Cash provided from operations		**25, 816**	**7,159**
Income taxes paid		(12,836)	(8,632)
Net cash provided from (used in) operating activities		**12,980**	**(1,473)**
Cash flows from investing activities:			
Proceeds from the sale of subsidiaries net of cash disposed	34	(2,621)	971
Purchase of property, plant and equipment, intangibles		(63,071)	(44,359)
Proceeds from the sale of property, plant and equipment, intangibles		6,654	17,456
Net (purchases) of financial assets		(409)	(1,416)
Acquisition of subsidiaries, net of cash acquired	34	(13,567)	-
Interest received		9,664	1,209
Net proceeds from loans issued		5,249	10,555
Net cash used in investing activities		**(58,101)**	**(15,584)**
Cash flows from financing activities:			
Proceeds from borrowings		623,821	558,006
Repayment of borrowings		(524,248)	(539,423)
Interest paid		(36,293)	(24,848)
Dividends paid		-	(1)
Repayment of long-term taxes payable		-	(1,930)
Net cash provided from (used in) financing activities		**63,280**	**(8,196)**
Effect of exchange rate changes		4,867	6,560
Net increase (decrease) in cash and cash equivalents		**23,026**	**(18,693)**
Cash and cash equivalents at the beginning of the period	**9**	**34,274**	**57,468**
Cash and cash equivalents at the beginning of the period of continuing operations		32,939	57,468
Cash and cash equivalent reclassified from held for sale		1,335	-
Cash and cash equivalents at the end of the period	**9**	**57,300**	**38,775**
Less cash and cash equivalent classified within held for sale at the end of the period		**-**	(5,836)
Cash and cash equivalents at the end of the period of continuing operations		**57,300**	**32,939**

The accompanying notes on pages 5 to 51 are an integral part of these consolidated financial statements.

	Note	Attributable to shareholders						Minority interest	Total equity
		Share capital	Share premium	Treasury shares	Hedging reserve	Currency translation reserve	Retained earnings		
Balance as of 1 January 2006		**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	21	-	-	-	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**
Loss for the year		-	-	-	-	-	(3,795)	(7,720)	(11,515)
Total recognised income/ (expense)		**38**	**9,342**	**(3,991)**	**3,112**	**9,868**	**5,132**	**(5,371)**	**18,130**
Dividend declared		-	-	-	-	-	(1)	-	(1)
Balance as of 31 December 2006		**442**	**109,686**	**(46,899)**	**4,413**	**14,825**	**100,445**	**22,403**	**205,315**
Balance at 1 January 2007		**442**	**109,686**	**(46,899)**	**4,413**	**14,825**	**100,445**	**22,403**	**205,315**
Currency translation difference		32	7,975	(3,412)	1,212	9,998	12,460	1,481	29,746
Cash flow hedges, net of tax	21	-	-	-	955	-	-	-	955
Net income/(expense) recognised directly in equity		**32**	**7,975**	**(3,412)**	**2,167**	**9,998**	**12,460**	**1,481**	**30,701**
Profit/(loss) for the year		-	-	-	-	-	123,853	(3,537)	120,316
Total recognised income/ (expense)		**32**	**7,975**	**(3,412)**	**2,167**	**9,998**	**136,313**	**(2,056)**	**151,017**
Balance as of 31 December 2007		**474**	**117,661**	**(50,311)**	**6,580**	**24,823**	**236,758**	**20,347**	**356,332**

The accompanying notes on pages 5 to 51 are an integral part of these consolidated financial statements.

1. The OMZ Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2007 for OMZ (the "Company") and its subsidiaries (together referred to as the "Group" or "OMZ").

The parent company, OMZ ("the Company") was incorporated as an open joint stock company in Ekaterinburg, Russian Federation in 1996 and was set up in accordance with Russian regulations. OMZ's principal subsidiaries are disclosed in note 33. These are incorporated under the Laws of the Russian Federation and the Czech Republic. For details of changes in the Group structure during 2007 refer to notes 29 and 34.

Principal activity. The Group operates 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 the Russian Federation and the Czech Republic.

Registered address and place of business

The company's registered address is:
Ermolaevskyi lane, 25, bld. 1
Moscow
Russian Federation

Operating Environment of the Group

The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation, Czech Republic and worldwide.

Russian Federation

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity and increased levels of volatility in market prices as witnessed during 2008. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Recent volatility in global and Russian financial markets

While the Group does not have any exposure to the US sub-prime market, the ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the Russian banking sector, and higher interbank lending rates. The uncertainties in the global financial market, has also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their outstanding loans. Deteriorating operating conditions for borrowers may also have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, Management has reflected revised estimates of expected future cash flows in their impairment assessments.

Deterioration of the economy in the post balance sheet period and management's responses are disclosed in note 38.

2. Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements of the 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. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (Note 4).

Functional currency. The functional currency for the Group's subsidiaries located in Russia is the national currency of the Russian Federation, the Russian Rouble ("RR"). The Group has subsidiaries located in the Czech Republic, where the functional currency is the Czech Koruna ("CZK"), which is the currency of measurement in the financial statements of SKODA JS a.s., PILSEN STEEL s.r.o. (ex – SKODA Hute s.r.o. and SKODA Kovarny s.r.o), Middle Estate s.r.o, TECHENG CA, s.r.o. and CHETENG ENGINEERING s.r.o. These have been translated into RR, the functional currency for consolidation purposes, at the applicable exchange rates as required by IAS 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") for inclusion in these consolidated financial statements.

Presentation currency. All amounts in these consolidated financial statements are presented in US$, unless otherwise stated.

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.

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. 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 CZK.

As management considers that US$ is a more convenient currency for users of these consolidated financial statements, these consolidated financial statements are presented in US$.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation (CBRF) at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Translation from functional to presentation currency. The results and financial position of each group entity (functional currency of which none is the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

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

(ii) income and expenses for each income statement 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 separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

At 31 December 2007 the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 24.5462 (2006: US$ 1 = RR 26.3311) and CZK 1=RR 1.35 (31 December 2006 CZK 1 = RR 1.26). The RR is not freely convertible in most countries outside of the Russian Federation.

2. Summary of Significant Accounting Policies (Continued)

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by 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. Hyperinflation in the Russian Federation ceased with effect from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

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 liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest, except for contingent income tax liabilities, which are measured in accordance with IAS 12 "Income Taxes".

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

Investments in jointly controlled entities. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. The Group recognises its interest in a jointly controlled entity using the equity method.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the invitees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

2. Summary of Significant Accounting Policies (Continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related consolidated balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Trading investments are securities or other financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists. The Group classifies financial assets into trading investments if it has an intention to sell them within a short period after acquisition, i.e. within 1 to 3 months. Trading assets also include financial derivatives. Trading investments are not reclassified out of this category even when the Group's intentions subsequently change.

Derivative financial instruments, including foreign exchange and commodity contracts are carried at their fair value. The method of accounting of for the fair value gain or loss depends on whether the derivative is designated as a hedging instrument held for trading. Trading derivatives are presented within Trade and other receivables or within Trade and other payables when their fair value is positive or negative, respectively. Hedging derivatives with less than one year to maturity are presented as Receivables from derivative operations or within Payables from derivative operations when their fair value is positive or negative, respectively. Hedging derivatives with more than one year to maturity are presented as Other long-term receivables or within Other long-term payables when their fair value is positive or negative, respectively. The Group designates as hedging instruments only those contracts, for which it assesses at the hedge inception that the derivative that is used in the hedging transaction is highly effective in offsetting changes in cash flows of the hedged item, and for which proper documentation of the hedging relationship is in place.

The Group classifies as hedging derivatives only those derivatives that meet the conditions of safety accounting. The Group uses derivatives to hedge future cash flows. The Group is hedging changes in cash flows from highly probable future transactions caused by changes in currency exchange rates and against changes in cash flows from highly probable future transactions caused by changes in commodity prices.

Changes in the fair value of derivatives that qualify as effective cash flow hedges are recognised in the hedging reserve in equity. Where a hedged forecasted transaction or firm commitment results in the recognition of a non-financial asset or of a non-financial liability, the gains and losses previously deferred in the hedging reserve are recycled from the hedging reserve and are included in the initial cost of the asset or liability. When a hedged forecasted transaction or firm commitment results in the recognition of a financial asset or of a financial liability, the amounts deferred in the hedging reserve are recycled to the income statement and classified as income or expense in the periods during which the hedged item affects the income statement.

2. Summary of Significant Accounting Policies (Continued)

When a hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting or the Group revokes the hedged derivative designation, any cumulative gain or loss on the hedging instrument, from the period when the hedge was effective, remains recognised directly in equity until the forecast transaction occurs. Derivatives which do not meet the criteria for hedge accounting, or where the Group revokes the hedged derivative designation, are classified as trading derivatives.

When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately recycled to the income statement and classified as Other operating income or Other operating expense.

Changes in the fair value of derivatives for trading are classified as Other operating income or Other operating expense.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as discounting the future cash flows or option models. The fair value of forward foreign exchange contracts is determined as the present value of future cash flows based on forward exchange market rates as at the balance sheet date. Fair value of commodity swaps is the present value of future cash flows from commodity derivatives based on the forward price taken from London Metal Exchange as the balance sheet date.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Certain derivative instruments do not qualify for hedge accounting according to IAS 39 “Financial Instruments: Recognition and Measurement”. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised in the income statements (as part of financial activities of the Group).

Other financial assets at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading investments. Management designates financial assets into this category only if (a) such classification eliminates or 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 Group’s key management personnel. Recognition and measurement of this category of financial assets is consistent with the accounting policy for trading investments.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Classification of financial liabilities. The Group classifies its financial liabilities into the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in the consolidated income statement in the period in which they arise. Other financial liabilities are carried at amortised cost.

Initial recognition of financial instruments. Trading investments and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading investments; and recognised in equity for assets classified as available for sale.

2. Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and inflow of benefits is probable. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

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.

Trading investments. Trading investments are carried at fair value. Interest earned on trading investments calculated using the effective interest method is presented in the consolidated income statement as finance income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and inflow of benefits is probable. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

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.

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

At each reporting date 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.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. 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:

	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.

2. Summary of Significant Accounting Policies (Continued)

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.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries and joint ventures is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates and joint ventures is included in the investment in associates/joint ventures. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software, patents, trademarks and licences.

Acquired computer software licenses, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use.

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 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.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

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.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

2. Summary of Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories. Inventories are recorded at the lower of cost and net realisable value. 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 overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of 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 original effective interest rate. The amount of the provision is recognised in the consolidated income statement. The primary factors that the Group considers whether a receivable is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held on call with banks, and other short-term, highly liquid, investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets.

2. Summary of Significant Accounting Policies (Continued)

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 consolidated 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 consolidated balance sheet are not reclassified or re-presented in the comparative consolidated 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.

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

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.

The Group stops classifying its non-current assets (or disposal group) as held for sale if core principles are not met – if its carrying amount will not be recovered principally through a sale transaction rather than through continuing use and if there is no commitment to sell (or exchange for shares in another entity) a substantial share of its interest in the subsidiaries.

If an entity ceases to classify a component of the Group as held for sale, the result of operations of the component previously presented in discontinued operations shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

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 consolidated financial statements are authorised for issue.

2. Summary of Significant Accounting Policies (Continued)

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 consolidated balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are expensed.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges. 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.

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.

Financial guarantees. Financial guarantees are contracts that requires the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is 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 obligation at the balance sheet date.

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).

2. Summary of Significant Accounting Policies (Continued)

Revenue recognition. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Employee benefits. Wages, salaries, contributions to the Russian Federation and Czech Republic state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Pension costs. In the normal course of business the Group contributes to the Russian Federation, Czech Republics 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.

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Estimated impairment. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. If the estimated gross margin, which impacts the assumptions of future cash flows, as of 31 December 2007 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 intangible assets.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the consolidated balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable.

With respect to deferred taxes, management has assumed that US$ 38,680 of tax losses will be utilised in the future (as of 31 December 2006: US$ 26,325), the effect of which is to reduce the deferred tax liability recorded at 31 December 2007 by US$ 9,283. 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 2015.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

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 2007, the Group would need to reduce the carrying value of receivables recognised using the percentage-of-completion method (Note 15) by US$ 120 million with a corresponding effect on operating profit.

Going concern. Management assumed that the Group will continue as a going concern. In making this judgement management considered current intentions and financial position of the Group. Over the past years the Group has successfully worked with banks and financial institutions to secure the necessary financing for the long-term contracts in process and for other investing needs. Based on the terms of the existing contracts as well as its recent experience, management of the Group expects to be able to continue to secure necessary short-term and long-term financing for its operational and investing cash flow requirements.

Other areas where judgements have been made include provisions for trade and other receivables (Note 10) and provisions for inventory (Note 11).

4. Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively.

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 introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced 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 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated financial statements.

Other new standards or interpretations. The Group has adopted the following interpretations which became effective from 1 January 2007:

- IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006);
- 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).

5. 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 2008 or later periods and which the Group has not early adopted:

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. The Group is currently assessing what impact the standard will have on segment disclosures in the consolidated financial statements

Puttable financial instruments and obligations arising on liquidation – IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 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. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

5. New Accounting Pronouncements (Continued)

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have any impact on the Group's consolidated financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. The Group will not early adopt this standard.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have any impact on the Group's consolidated financial statements.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The Group is currently assessing the impact of the amendment on its financial statements.

5. New Accounting Pronouncements (Continued)

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

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

- 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);
- IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

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

6. Changes in Comparative Information

Reclassification of discontinued operations

In 2007 the Group ceased classifying OAO Izhorskiye Zavody and ZAO Komplekt Atom Izhora as discontinued operations due to uncertainty in relation to this transaction (Note 29). In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" no reclassification of comparative balance sheet numbers is required, while results of operations of the subsidiaries for 2006 were re-presented and included in comparative income from continuing operations. The cash flow statement and segment information were re-presented accordingly.

Correcting adjustments

Gross up of loans

The Group has "back-to-back" long term loans with an initial amount of EUR 79 mln issued through an independent intermediary to its subsidiaries located in Czech Republic. The related balances as of 31 December 2007 and 31 December 2006 are US$ 99 mln (EUR 68 mln) and US$ 95 mln (EUR 72 mln) respectively.

6. Changes in Comparative Information (Continued)

Correcting adjustments (Continued)

<u>Gross up of loans (Continued)</u>

As of 31 December 2006 the Group netted off corresponding amounts of loans receivable and loans payable, including accrued interest expense, presented in Other non-current assets, Long-term borrowings, Short-term borrowings and Trade and other payables. During the preparation of the consolidated financial statements for the year ended 31 December 2007 the Group re-assessed the related contracts and came to the conclusion that there is no legally enforceable right for offset. As a result Other non-current assets, Long-term borrowings, Short-term borrowings and Trade and other payables as of 31 December 2006 were increased by US$ 95,005, US$ 91,763, US$ 2,633 and US$ 609 respectively.

<u>Other changes in comparatives</u>

During the preparation of the consolidated financial statements for 2007 the Group also identified that the financial statements for 2006 included the following:

- As of 31 December 2006 the Group offset the receivables on short term bank promissory notes with loans payable to the same bank without a legally supported right to perform the offset. Correcting this, Non-current assets held for sale and Liabilities directly associated with non-current assets held for sale were increased by US$ 4,501 to the extend they were attributable to discontinued operations, Cash and cash equivalent and Short-term borrowings were increased by US$ 7,102.

- As of 31 December 2006 the Group recognised short term and long term advances issued and payable to the same suppliers in relation to the construction contracts for which the Group had the underlying agreements supporting net settlements. Correcting this, Trade and other receivables, Other non-current assets, Trade and other payables, Provision for liabilities and charges and Other long-term liabilities were reduced by US$ 5,686, US$ 6,708, US$ 1,266, US$ 5,790 and US$ 5,338 respectively.

Other changes in presentation

The provision for unused vacation in the amount of US$ 5,790 was reclassified from Provision for liabilities and charges to Trade and other payables.

Summary of corrective adjustments and other changes in presentation

Correcting adjustments and other changes in presentation led to an increase in Total current assets of US$ 5,917 (including an increase in Non-current assets held for sale by US$ 4,501), an increase in Non-current assets of US$ 88,297, an increase in Total current liabilities of US$ 7,789 (including an increase in Non-current liabilities held for sale of US$ 4,501) and an increase in Total non-current liabilities of US$ 86,425. These corrections did not influence the amount of Net loss for the year ended 31 December 2006.

7. 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 Izhorskiye Zavody (Russia) and SCODA JS a.s. (Czech Republic) and produces three major types of equipment for the nuclear power industry:

- Primary circuit equipment for nuclear power plants. A standard set of primary circuit equipment produced by the Group comprises a reactor vessel, in-vessel components, and a cover with extending pipes.

- Spent nuclear fuel containers for nuclear power blocks. The Group manufactures containers for storage and transportation of spent nuclear fuel from pressurized water reactors and scientific nuclear reactors.

- A wide range of spare parts.

7. Segment Information (Continued)

Primary reporting format – business segments (Continued)

In addition, the segment provides services for the installation of nuclear power plant equipment and 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), PILSEN STEEL s.r.o. (Czech Republic) and UralmashSpecstal (Russia).

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 2007 the main production sites of the machinery equipment manufacturing segment are Uralmash and Izhorskiye Zavody (Russia).

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 manufacture of equipment for oil refineries and other activities (Izhorskiye Zavody).

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.

7. Segment Information (Continued)

Primary reporting format – business segments (Continued)

Year ended 31 December 2007	NPPEQ	STEEL	MMEQ	MINEQ	Other	Eliminations and unallocated items	Total
Total sales	256,176	542,468	104,507	159,194	62,730	(164,919)	960,156
Less intersegment sales	(759)	(79,264)	(55,426)	(2,565)	(26,905)	164,919	-
External sales	255,417	463,204	49,081	156,629	35,825	-	960,156
Gross margin	28,380	112,673	8,086	23,570	16,435	6,546	195,690
Gross margin, %	**11%**	**21%**	**8%**	**15%**	**-**	**-**	**-**
Segment result	4,958	85,437	(22,030)	1,532	(2,971)	70	66,996
Unallocated operating income and expenses	-	-	-	-	-	92,972	92,972
Operating profit/(loss)	**4,958**	**85,437**	**(22,030)**	**1,532**	**(2,971)**	**93,042**	**159,968**
Finance costs, net	-	-	-	-	-	(21,493)	(21,493)
Loss from joint venture	-	-	-	-	-	(8,013)	(8,013)
Profit/(loss) before taxation	**4,958**	**85,437**	**(22,030)**	**1,532**	**(2,971)**	**63,536**	**130,462**
Income tax expense	-	-	-	-	-	(10,146)	(10,146)
Profit/(loss) for the year	**4,958**	**85,437**	**(22,030)**	**1,532**	**(2,971)**	**53,390**	**120,316**
Segment assets	288,721	373,149	72,508	126,172	108,892	-	969,442
Unallocated assets	-	-	-	-	-	280,982	280,982
Total assets	**288,721**	**373,149**	**72,508**	**126,172**	**108,892**	**280,982**	**1,250,424**
Segment liabilities	(151,174)	(146,030)	(57,420)	(84,417)	(16,764)	-	(455,805)
Unallocated liabilities						(438,287)	(438,287)
Total liabilities	**(151,174)**	**(146,030)**	**(57,420)**	**(84,417)**	**(16,764)**	**(438,287)**	**(894,092)**
Capital expenditure	14,060	32,266	3,793	7,837	3,179	-	61,135
Depreciation and amortisation	3,388	8,919	5,565	1,952	4,262	-	24,086
Change in other provisions	407	1,780	(6,412)	3,202	82	(21,685)	(22,626)
Change in provisions for impairment of property, plant and equipment and intangible assets	-	196	212	-	-	-	408

7. Segment information (Continued)

Primary reporting format – business segments (Continued)

2006	NPPEQ	STEEL	MMEQ	MINEQ	Other	Eliminations and unallocated items	Total
Total sales	145,721	393,457	92,360	133,607	58,408	(113,804)	709,749
Less intersegment sales	(259)	(36,335)	(46,684)	(1,168)	(29,358)	113,804	-
External sales	145,462	357,122	45,676	132,439	29,050	-	709,749
Gross margin	(7,028)	83,101	8,292	31,661	9,959	(3,032)	122,953
Gross margin, %	**(5%)**	**21%**	**9%**	**24%**	**-**	**-**	**-**
Segment result	(26,474)	52,295	(7,456)	6,186	3,938	(966)	27,523
Unallocated operating income and expenses	-	-	-	-	-	(3,968)	(3,968)
Operating profit/(loss)	(26,474)	52,295	(7,456)	6,186	3,938	(4,934)	23,555
Finance costs, net	-	-	-	-	-	(25,780)	(25,780)
Profit/(loss) before taxation	(26,474)	52,295	(7,456)	6,186	3,938	(30,714)	(2,225)
Income tax expenses	-	-	-	-	-	(9,290)	(9,290)
Profit/(loss) for the year	(26,474)	52,295	(7,456)	6,186	3,938	(40,004)	(11,515)
Segment assets	117,803	264,465	87,000	109,432	9,732	464	588,896
Unallocated assets	-	-	-	-	-	211,478	211,478
Non-current assets held for sale	206,749	-	-	-	-	-	206,749
Total assets	324,552	264,465	87,000	109,432	9,732	211,942	1,007,123
Segment liabilities	45,877	114,704	25,737	44,458	25,567	-	256,343
Unallocated liabilities	-	-	-	-	-	307,235	307,235
Liabilities directly associated with non-current assets held for sale	238,230	-	-	-	-	-	238,230
Total liabilities	284,107	114,704	25,737	44,458	25,567	307,235	801,808
Capital expenditure	4,084	19,457	1,854	2,708	20,760	-	48,863
Depreciation and amortisation	5,313	10,999	3,551	942	1,446	-	22,251
Change in other provisions	(3,691)	2,166	(997)	(3,149)	168	(92)	(5,595)
Change in provisions for impairment of property, plant and equipment and intangible assets	-	-	-	-	-	(85)	(85)

Secondary reporting format – geographical segments

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

	Sales		Total assets		Capital expenditure	
	Year ended 31 December 2007	Year ended 31 December 2006 (Re-represented)	31 December 2007	31 December 2006 (Restated)	Year ended 31 December 2007	Year ended 31 December 2006
Russian Federation	447,345	311,491	696,566	652,947	36,648	36,256
Commonwealth of Independent States	57,441	49,712	-	-	-	-
Asia	92,295	92,315	-	-	-	-
Europe	349,511	246,051	553,858	354,176	24,487	12,607
North America	13,087	10,090	-	-	-	-
Other regions	477	90	-	-	-	-
Total	**960,156**	**709,749**	**1,250,424**	**1,007,123**	**61,135**	**48,863**

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.

8. Balances and Transactions with Related Parties

Related parties are defined in IAS 24 “Related Party Disclosures”. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

The Group is significantly influenced by ZAO “Forpost-Management”, which owns 44.41% of the Company share capital at 31 December 2007 and 31 December 2006. During 2007 and 2006 years there were no transactions with ZAO “Forpost-Management”, other than key management compensation as set out below.

In September 2007 the Company and Dalmers Service Limited created a joint venture (Note 34). The nature of significant transactions with the joint venture or significant balances outstanding as of 31 December 2007 is detailed below.

As of 31 December 2007, the outstanding balances with the joint venture were as follows:

	Joint venture
Gross amount of trade receivables	11,482
Other receivables	11,659
Impairment provisions for trade and other receivables at 31 December 2007	(906)
Advances issued	5,051
Other assets	116
Loans issued	6,149
Trade and other payables	(577)
Advances received	(116)
Promissory notes issued	(15,000)

The income and expense items with the joint venture for the 4th quarter of 2007 were as follows:

	Joint venture
Sales of goods	4,553
Purchases of raw materials and consumables	372
Share of result of joint ventures	(8,013)

Key management compensation

The remuneration paid to the directors of the Group and members of the Board of Directors of the Group is determined in respect of the period from one annual general meeting to the next. During the year ended 31 December 2007 and 2006, the aggregate compensation to the directors included in general and administrative expenses in the consolidated income statement amounted to US$ 5,677 and US$ 7,014 respectively.

9. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	31 December 2007	**31 December 2006 (Restated)**
RR denominated cash on hand and balances with banks	21,400	11,144
CZK denominated cash on hand and balances with banks	13,878	720
EURO denominated balances with banks	15,039	5,130
US$ denominated balances with banks	161	7,070
Other currency denominated balances with bank	279	1,773
Cash equivalents	6,543	7,102
Total Cash and Cash Equivalents	**57,300**	**32,939**

9. Cash and Cash Equivalents (Continued)

The effective interest rate of bank balances payable on demand is 0.1 % (31 December 2006: 0.1%).

All the bank balances and term deposits are neither past due nor impaired. Analysis by credit quality of bank balances and term deposits using national rating by Fitch for Russian banks and international rating by Fitch for international banks is as follows:

	31 December 2007		31 December 2006 (Restated)	
	Bank balances payable on demand	**Short-Term Promissory Notes**	**Bank balances payable on demand**	**Short-Term Promissory Notes**
Russian Banks				
- AAA (rus) rated	3,993	-	2,346	-
- AA- (rus) to AA+ (rus) rated	57	-	36	-
- A- (rus) to A+ (rus) rated	-	-	-	-
- Lower than A- (rus) rated	6,816	-	-	-
- Unrated	10,116	6,543	5,969	7,102
International Banks				
- AAA rated	-	-	-	-
- AA- to AA+ rated	17	-	-	-
- A- to A+ rated	4,472	-	2,837	-
- Lower than A- rated	1,288	-	-	-
- Unrated	23,998	-	14,649	-
Total	**50,757**	**6,543**	**25,837**	**7,102**

Bank balances payable on demand in the amount of US$ 7,247 (31 December 2006: 3,296) and short-term promissory notes in the amount of US$ 6,543 (31 December 2006: 7,102), held in Russian banks that are unrated by Fitch as of 31 December 2007, have international rating by Fitch of AA- to A+ and Lower than A- respectively.

Bank balances payable on demand held in international banks in the amount of US$ 23,127 (31 December 2006: US$ 8,138) that are unrated by Fitch as of 31 December 2007 are rated by S&P at A+/ Stable/ A-1.

10. Trade and Other Receivables

	31 December 2007	31 December 2006 (Restated)
Trade receivables	131,846	82,083
Accounts due from customers for construction work	45,224	15,763
Forward foreign exchange contracts – cash flow hedges	8,573	5,258
VAT recoverable	34,377	35,180
VAT on advances from customers	46,254	20,405
Other taxes receivable	14,913	6,276
Advances to suppliers	82,901	42,073
Other receivables	23,658	4,869
Total Trade and other receivables	**387,746**	**211,907**

Accounts receivable are denominated in RR except for US$ 41,959 and US$ 66,877 of accounts receivable denominated in US$ and CZK respectively at 31 December 2007 (31 December 2006: US$ 6,658 and US$ 51,241 respectively).

As of 31 December 2007 trade, other receivables and prepayments of US$ 38,636 (31 December 2006: US$ 16,035) were individually impaired. The individually impaired receivables mainly relate to customers overdue for more than 12 months, which management does not expect to be collectible. In addition, other receivables from the customer with a recent history of default were provided in full.

Provisions for impairment offset against the trade and other receivable balances are as follows:

	31 December 2007	31 December 2006
Trade receivables	(7,167)	(7,027)
Advances to suppliers	(2,598)	(1,601)
Other receivables	(28,871)	(7,407)
	(38,636)	**(16,035)**

10. Trade and Other Receivables (Continued)

Movements in the impairment provision for trade and other receivables are as follows:

				2007
	Trade receivables	Advanced to suppliers	Other receivables	Total
As of 1 January 2007	**(7,027)**	**(1,601)**	**(7,407)**	**(16,035)**
Transfer from non-current assets held for sale	(1,006)	(1,330)	(395)	(2,731)
Provision (charged)/ used	368	146	(20,603)	(20,089)
Disposal of subsidiaries	1,251	450	801	2,502
Exchange differences	(753)	(263)	(1,267)	(2,283)
As of 31 December 2007	**(7,167)**	**(2,598)**	**(28,871)**	**(38,636)**

				2006
	Trade receivables	Advanced to suppliers	Other receivables	Total
As of 1 January 2006	**(7,616)**	**(1,628)**	**(6,096)**	**(15,340)**
Provision (charged)/ used	764	(1,780)	(1,607)	(2,623)
Transfer to non-current assets held for sale	984	1,329	318	2,631
Exchange differences	(1 159)	478	(22)	(703)
As of 31 December 2006	**(7,027)**	**(1,601)**	**(7,407)**	**(16,035)**

As of 31 December 2007, trade receivables of US$ 16,203 (31 December 2006: US$ 17,557) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing of these trade receivables is as follows:

	31 December 2007	31 December 2006
Less than 6 months	7,101	4,747
From 6 to 12 months	8,126	11,940
More than 12 months	976	870
Total trade receivable past due not impaired	**16,203**	**17,557**

11. Inventories

	31 December 2007	31 December 2006 (Restated)
Raw materials	103,815	60,963
Work in progress	123,753	111,191
Finished goods	20,359	36,093
Goods in transit	10,019	11,922
Provision for obsolete inventory	(15,408)	(25,572)
Total Inventories	**242,538**	**194,597**

Certain inventories included above totalling US$ 13,656 (31 December 2006: US$ 17,158) were provided as security under loan agreements (Note 18).

At 31 December 2007 there were no inventories carried at fair value less costs to sell (31 December 2006: US$ 3,463).

12. Other Current Assets

Short-term derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out the fair values, at the balance sheet date, of receivables or payables under foreign exchange forwards contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

12. Other Current Assets (Continued)

	31 December 2007	31 December 2006 (Restated)
Derivatives	737	185
Promissory notes	7,249	242
Provision for promissory notes	(4,988)	(32)
Other	2,511	1,506
Total Other Current Assets	**5,509**	**1,901**

Promissory notes past due from the customer with a recent history of default were provided in full.

Movements in the impairment provision for promissory notes are as follows:

	Provision for promissory notes
As of 1 January 2006	**(1,339)**
Transfer to non-current assets held for sale	1,432
Provision (charged)/ used	-
Exchange differences	(125)
As of 31 December 2006	**(32)**
Transfer from non-current assets held for sale	(1,432)
Provision (charged)/ used	(3,314)
Exchange differences	(210)
As of 31 December 2007	**(4,988)**

13. Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
Balance at 1 January 2007					
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 1 January 2007	**100,943**	**62,449**	**3,150**	**17,414**	**183,956**
Exchange differences	8,242	10,914	428	3,270	22,854
Additions	1,459	13,842	3,642	37,554	56,497
Transfers	7,064	16,227	3,293	(26,584)	-
Acquisition of subsidiaries	8,751	-	197	1	8,949
Disposals	(804)	(4,105)	(1,167)	(568)	(6,644)
Disposal of subsidiaries	(15,725)	(1,459)	(194)	(1,152)	(18,530)
Depreciation	(6,583)	(12,320)	(2,404)	-	(21,307)
Reclassification from non-current assets held for sale	28,735	8,810	637	623	38,805
Impairment (charge) release	275	(686)	3	-	(408)
Closing net book value	**132,357**	**93,672**	**7,585**	**30,558**	**264,172**
Balance at 31 December 2007					
Cost	172,579	200,415	17,851	30,580	421,425
Accumulated depreciation	(37,507)	(103,489)	(10,254)	-	(151,250)
Impairment loss recognised	(2,715)	(3,254)	(12)	(22)	(6,003)
Net book value at 31 December 2007	**132,357**	**93,672**	**7,585**	**30,558**	**264,172**

13. Property, Plant and Equipment (Continued)

Comparative information for 2006

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
Balance at 1 January 2006					
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 1 January 2006	**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 (or disposal group)	(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**

Significant decrease in Impairment loss recognised was due to its disposal together with property, plant and equipment of the subsidiaries disposed in the exchange of shares in the jointly controlled entity (Note 34).

At 31 December 2007 bank borrowings are secured on property, plant and equipment with a carrying value of US$ 11,255 (31 December 2006: US$ 25,641) (Note 18).

At 31 December 2007 management assessed the recoverable amount of property, plant and equipment and the adequacy of impairment losses recognised in prior periods. Discount rates of 10.4 percent and 12.8 percent for US$ denominated and RR denominated cash flows, respectively, have been used in estimating the recoverable value through discounted cash flows at 31 December 2007.

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. Izhorskiye Zavody signed 20-49 year rental agreements, under which rent payments are negotiated annually.

14. Intangible Assets

The carrying value of goodwill and other intangible assets as of 31 December 2007 and 2006 was as follows:

	Goodwill	Trade mark	Internally developed intangible assets	Total
Balance at 1 January 2007				
Cost	2,000	23,409	23,573	48,982
Accumulated amortisation	-	(1,678)	(6,408)	(8,086)
Net book value at 1 January 2007	**2,000**	**21,731**	**17,165**	**40,896**
Additions	-	-	290	290
Acquisition of subsidiaries	1,247	6,563	-	7,810
Disposals	-	-	(586)	(586)
Amortisation	-	(690)	(2,089)	(2,779)
Reclassification from held-for-sale (or disposal group)	-	8	280	288
Disposal of subsidiaries	(2,110)	-	(350)	(2,460)
Exchange differences	118	3,219	2,450	5,787
Closing net book value	**1,255**	**30,831**	**17,160**	**49,246**
Balance at 31 December 2007				
Cost	1,255	33,200	25,662	60,117
Accumulated amortisation	-	(2,369)	(8,502)	(10,871)
Net book value at 31 December 2007	**1,255**	**30,831**	**17,160**	**49,246**

14. Intangible Assets (Continued)

Comparative information for 2006

	Goodwill	Trade mark	Internally developed intangible assets	Total
Balance at 31 December 2005				
Cost	1,909	20,047	19,869	41,825
Accumulated amortisation	-	(871)	(3,772)	(4,643)
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 26)	(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	2,000	23,409	23,573	48,982
Accumulated amortisation	-	(1,678)	(6,408)	(8,086)
Net book value at 31 December 2006	**2,000**	**21,731**	**17,165**	**40,896**

Trade marks acquired before 2007 consist of license agreements for trade marks “ŠKODA” used by ŠKODA JS a.s. and PILSEN STEEL s.r.o. (SKODA Kovarny s.r.o. before the legal merger of SKODA Kovarny s.r.o. and SKODA Hute s.r.o. in the middle of 2007). The fair values of these licensed agreements for trade marks were evaluated by American Appraisal in 2004 using the income approach, referred to as the “relief from royalty” method. No indications of impairments were identified by the Group as of the reporting date for these intangible assets.

Trade marks with fair value of US$ 6,563 were purchased with the acquisition of CHETENG ENGINEERING s.r.o. (Note 34) and represent acquired trade mark, documentation and archives.

Internally developed intangible assets mostly consist of patented and non-patented technologies. Intangible assets at the development stage not completed as of 31 December 2006 in total amount of US$ 4 mln were put into usage in full during 2007.

At 31 December 2006 goodwill comprises goodwill which arose on acquisition of OOO OMZ-Kran and OAO VNIIPTMASH. As of 31 December 2006 management assessed the recoverable amount of intangible assets and the adequacy of impairment losses recognised in prior periods. The recoverable amount of OOO OMZ-Kran and OAO 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%.

In September 2007 OOO OMZ-Kran and OAO VNIIPTMASH were sold as part of the Uralmash disposal (Note 34).

At 31 December 2007 goodwill comprises goodwill on acquisition of TECHENG CZ s.r.o. and CHETENG ENGINEERING s.r.o. (Note 34).

15. Other Non-Current Assets

	31 December 2007	31 December 2006 (Restated)
Long-term loans issued	99,349	95,005
Advances issued	11,246	14,189
Long-term receivables from construction contracts	9,444	-
Deferred expenses on acquired software, not put into usage yet	4,917	-
Available-for-sale investments	4,428	2,225
Restricted cash	2,872	6,243
Forward foreign exchange contracts – cash flow hedges	554	1,429
Other non-current assets	2,381	842
Total Other Non-Current Assets	**135,191**	**119,933**

Amount of US$ 2,872 as of 31 December 2007 (31 December 2006: US$ 6,243) deposited in bank accounts represent denominated in CZK restricted resources for the purposes of securing guaranties or in accordance with the contractual agreements with investors due to the consecutive release of resources for the realization of the individual projects. If necessary for the Group these financial assets can be released within 3 months subject to negotiation with the bank.

16. 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.

At December 2007 the Group stopped classifying OAO Izhorskiye Zavody and ZAO Komplekt Atom Izhora as non-current assets held for sale. For description of the reasons and circumstances leading to the decision – see Note 29.

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

	31 December 2007	31 December 2006 (Restated)
Cash and cash equivalents	-	5,836
Trade and other receivables	-	125,824
Inventories	-	23,911
Property, plant and equipment	-	38,805
Intangible assets	-	288
Deferred tax asset	-	5,497
Non-current financial assets	-	6,588
Total non-current assets classified as held for sale	**-**	**206,749**

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

	31 December 2007	31 December 2006 (Restated)
Trade and other payables	-	129,739
Short-term borrowings	-	63,539
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	**-**	**238,230**

17. Trade and Other Accounts Payable

	31 December 2007	31 December 2006 (Restated)
Trade payables	120,923	87,114
Accounts due to customers for contract work	62	30,877
Other payables and accrued expenses	42,482	18,495
Total financial liabilities	**163,467**	**136,486**
Payroll accounts payable	20,053	14,002
Provision for unused vacation	4,475	5,790
Deferred VAT	6,981	3,848
Advances received	212,651	86,654
Short-term portion of long-term taxes payable (Note 19)	286	-
Other taxes payable	13,204	10,355
Total trade and other accounts payable	**421,117**	**257,135**

At 31 December 2007 accounts payable were primarily denominated in RR except for US$ 20,622 and US$ 66,066 of accounts payable denominated in US$ and CZK respectively (31 December 2006: US$ 21,364 and US$ 72,642 denominated in US$ and CZK respectively).

Provision for unused vacations is recognized based on the analysis of the unused vacation per individual employees. The amount of US$ 4,475 is expected to be utilised during 2008.

18. Borrowings

Short-term loans and borrowings

	31 December 2007	31 December 2006 (Restated)
US$ denominated fixed rate	28,820	42,220
EURO denominated fixed rate	47,470	47,556
RR denominated fixed rate	44,202	21,570
RR denominated floating rate	10,000	-
	130,492	**111,346**
Add: current portion of long-term debt	34,159	-
Total short-term borrowings	**164,651**	**111,346**

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

	31 December 2007	31 December 2006
US$ denominated fixed rate	9.25%	9.38%
EURO denominated fixed rate	8.48%	7.11%
RR denominated fixed rate	9.01%	9.79%
RR denominated floating rate	7.83%	-

As at 31 December 2007 short-term borrowings totaling US$ 8,963 and US$ 2,459 (31 December 2006: US$ 25,641 and US$ 17,158) 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 11 and 13, respectively.

Long-term borrowings

	31 December 2007	31 December 2006 (Restated)
RR denominated fixed rate	63,964	-
EURO denominated fixed rate	98,298	91,763
	162,262	**91,763**
Non-convertible bonds	94,086	57,415
Total long-term borrowings	**256,348**	**149,178**

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

	31 December 2007	31 December 2006
RR denominated fixed rate	7.50%	-
EURO denominated fixed rate	5.76%	5.31%
Non-convertible bonds	8.80%	8.80%

As at 31 December 2007, long-term borrowings totaling US$ 63,964 (31 December 2006: nil) are secured on the property and inventory of the Group as well as shares of one subsidiary (Note 33). The carrying amount of pledged inventory and property, plant and equipment is disclosed in notes 11 and 13, respectively.

At 31 December 2007 long-term loans had the following maturity profile:

	2008	2009	2010 and after	Total
EURO denominated fixed rate	-	1,727	96,571	**98,298**
RR denominated fixed rate	-	63,964	-	**63,964**
		65,691	**96,571**	**162,262**
Non-convertible bonds	-	94,086		94,086
	-	**159,777**	**96,571**	**256,348**

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

	2007	2008	2009 and after	Total
EURO denominated fixed rate	-	-	91,763	91,763
			91,763	**91,763**
Non-convertible bonds	-	-	57,415	57,415
	-	**-**	**149,178**	**149,178**

18. Borrowings (Continued)

Long-term borrowings (Continued)

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

	31 December 2007		31 December 2006 (Restated)	
	Carrying amounts	**Fair values**	**Carrying amounts**	**Fair values**
Non-convertible bonds	94,086	82,130	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 9.11 percent for RR denominated borrowings (31 December 2006: 9.8 percent for RR denominated).

Domestic non-convertible bonds

Balance at 1 January 2006	**31,480**
Issuance (par value RR 1 thousand totalling RR 1,500 million)	56,039
Repayment (par value RR 1 thousand totalling RR 886 million)	(33,145)
Amortization of discount	(307)
Effect of exchange rate changes	3,348
Balance at 31 December 2006	**57,415**
Issuance	28,613
Amortization of discount	2,069
Effect of exchange rate changes	5,989
Balance at 31 December 2007	**94,086**

19. 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.

	31 December 2007	31 December 2006 (Restated)
Current	-	-
1 to 2 years	3,111	5,828
Total long term taxes payable	**3,111**	**5,828**

At 31 December 2007 long-term taxes payable bore an effective interest rate of 5.5 percent per annum.

The fair value of long-term taxes payable at 31 December 2007 totalled US$ 2,606 (31 December 2006: US$ 5,328). 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.

20. Other Long-Term Liabilities

	31 December 2007	31 December 2006 (Restated)
Trade payables, long-term	3,857	-
Other long-term liabilities	9,507	134
	13,364	**134**

21. 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 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)**
Currency translation					2	30	(1,945)	(1,467)
At 31 December 2007	**2,750**	**35,480**	**(2,720)**	**(4,551)**	**34**	**440**	**(28,668)**	**(21,643)**

At 31 December 2007 the authorized number of ordinary and preference shares totalled 70,700 thousand and 2,750 thousand (31 December 2006: 70,700 thousand and 2,750 thousand), respectively, both with a nominal value per share of RR 0.1.

At 31 December 2007 the issued number of ordinary and preference shares totalled 35,480 thousand and 2,750 thousand. (31 December 2006: 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 might 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 2007 a hedging reserve recorded within equity represented the effective portion of changes in the fair value of derivatives in the amount of US$ 6,580 (31 December 2006: US$ 4,413).

During year 2007 the weighted average market price of the Company's ordinary shares was US$10.55 (During year 2006: US$8.85).

22. Construction Contracts

During 2007 the revenues and gross margin recognised on long-term-contracts amounted to:

	Year ended 31 December 2007	Year ended 31 December 2006 (Re-presented)
Contract revenue	197,207	88,388
Contract costs	177,703	(100,076)
Gross margin	**19,504**	**(11,688)**

The Group's financial position with respect to construction contracts is disclosed in notes 10, 15 and 17.

Construction contracts in progress:

	Year ended 31 December 2007	Year ended 31 December 2006 (Restated)
Contract costs incurred and recognized profits (less losses) to date	645,486	448,279
Advances received on construction contracts	121,872	118,787

Advances received on construction contracts also includes VAT amounts on those payments received, which were netted off with accrued receivables in accordance with IAS 11 "Construction Contracts".

23. Cost of Sales

	Year ended 31 December 2007	Year ended 31 December 2006 (Re-presented)
Changes in inventories of finished goods and work in progress	(21,097)	(31,552)
Materials and components used	412,543	321,442
Labour costs	139,587	109,661
Services, including sub-contracting costs	134,160	72,348
Gas and fuel	72,762	90,269
Depreciation	16,919	19,036
Amortisation of intangible assets	1,790	1,799
Other	7,802	3,793
Total cost of sales	**764,466**	**586,796**

Total labour costs included in all income statement captions amounted to US$ 206,572 (2006: US$ 175,554):

	Year ended 31 December 2007	Year ended 31 December 2006 (Re-presented)
Short-term employee benefits	185,001	158,728
Termination fee	1,895	-
Pension charges	19,676	16,826
Total labour costs	**206,572**	**175,554**

24. Selling Expenses

	Year ended 31 December 2007	Year ended 31 December 2006 (Re-presented)
Transportation	13,255	11,130
Labour costs	9,313	8,249
Services	7,085	10,349
Other	9,105	1,478
Total selling expenses	**38,758**	**31,206**

25. General and Administrative Expenses

	Year ended 31 December 2007	Year ended 31 December 2006 (Re-presented)
Labour costs	57,672	57,644
Services	22,786	18,177
Taxes	6,729	6,004
Depreciation	4,388	672
Amortisation of intangibles	989	744
Administration overheads	7,625	5,971
Total general and administrative expenses	**100,189**	**89,212**

26. Other Operating Income, Net

	Year ended 31 December 2007	Year ended 31 December 2006 (Re-presented)
Gain on disposal of subsidiaries (Note 34)	138,469	-
Change in provision for impairment of receivables (Note 10)	(20,089)	(2,623)
Change in provision for impairment of financial assets (Note 12)	(3,314)	-
Change in provision for obsolete inventory	914	(2,972)
Change in provision for other assets	(137)	-
Impairment release on property plant and equipment (Note 13)	408	-
Impairment charge on intangible assets (Note 14)	-	(85)
(Loss) / gain on disposal of property, plant and equipment	(488)	21,859
(Loss) on acquisition of financial assets	(12,609)	-
(Loss) on disposal of other assets	-	(11)
Gain on forgiveness of the debt to the budget	5,999	-
Other (losses) / gains	(5,928)	4,852
Total other operating income, net	**103,225**	**21,020**

27. Finance Costs, Net

	Year ended 31 December 2007	Year ended 31 December 2006 (Re-presented)
Interest expense on borrowings	(37,411)	(26,396)
Interest income	10,738	1,251
Loss on financial assets through profit and loss	(83)	(1,104)
Foreign exchange gain, net	5,263	469
Total finance costs, net	**(21,493)**	**(25,780)**

28. Income Tax

	Year ended 31 December 2007	Year ended 31 December 2006 (Re-presented)
Income tax expense – current	(10,240)	(11,074)
Deferred tax income – origination and reversal of temporary differences	94	1,784
Income tax expense	**(10,146)**	**(9,290)**

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

	Year ended 31 December 2007	Year ended 31 December 2006 (Re-presented)
Profit/(loss) before taxation	130,462	(2,225)
Theoretical tax charge at statutory rate of 24%	31,311	(534)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of different tax rates on loss generated in other countries	9,916	-
Gain from disposal of subsidiaries	(32,576)	-
Gain on release of tax penalties	(1,440)	-
Non-deductible expenses	6,384	8,091
Effect of tax rate changes	(1,188)	-
Non-recognised deferred tax asset movement	(2,261)	1,733
Income tax expense	**10,146**	**9,290**

Most companies in the Group were subject to tax rates of 24 percent on taxable profits for 2007 and 2006. Deferred tax asset and liabilities are mainly measured at the rate of 24 percent as at 31 December 2007 (31 December 2006: 24 percent).

The statutory income tax rate for subsidiaries of the Group registered in Czech Republic (Note 31) for the 2007 and 2006 assessment periods was 24%. Effective from 1 January 2008, the rate in the Czech Republic has changed to 21%, effective from 1 January 2009 to 20% and effective from 1 January 2010 to 19%.

28. Income Tax (Continued)

	31 December 2006	Reclassification from assets held for sale	Acquired in 2007	Disposed in 2007	Differences recognition and reversal	Exchange difference	31 December 2007
Tax effects of deductible temporary differences:							
Property, plant and equipment	9,505	637	-	(6,607)	(2,888)	508	1,155
Provision for impairment of investments	408	3	-	-	236	39	686
Accounts payable and accruals	2,918	38	-	(2,746)	2,971	316	3,497
Inventories	-	-	-	-	17,055	716	17,771
Provision for Inventory	6,609	1,679	-	(2,363)	(3,449)	483	2,959
Accounts receivable	4,816	6,160	-	-	(9,760)	388	1,604
Provision for impairment of receivables	-	-	-	(913)	4,580	204	3,871
Loss carry forward	6,318	3,177	-	(1,350)	529	679	9,353
Other	949	-	-	(280)	8,751	432	9,852
Tax effects of taxable temporary differences:							
Property, plant and equipment	(16,062)	(2,065)	(1,527)	805	(71)	(452)	(19,372)
Intangible assets	-	-	(1,247)	-	(681)	(36)	(1,964)
Inventories	(6,298)	(2,724)	-	-	1,421	(596)	(8,197)
Accounts receivable recognized using percentage of completion method	(4,967)	-	-	574	(12,008)	(856)	(17,257)
Provision for impairment of receivables	(4,413)	(1,138)	-	953	469	(368)	(4,497)
Provision for repairs	(5,507)	-	(139)	1	(638)	(907)	(7,190)
Other	(1,017)	(3,245)	-	5,992	(8,684)	(637)	(7,591)
Net tax effect of temporary differences	**(6,741)**	**2,522**	**(2,913)**	**(5,934)**	**(2,167)**	**(87)**	**(15,320)**
Less non-recognised deferred tax asset	(9,324)	-	-	7,522	2,261	(459)	-
Total net deferred tax (liability)/assets	**(16,065)**	**2,522**	**(2,913)**	**1,588**	**94**	**(546)**	**(15,320)**

28. Income Tax (Continued)

Comparative information for year 2006:

	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)**

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 cannot be offset against the deferred tax liability of another company. As at 31 December 2007, a deferred tax asset in the amount of US$ 0 (31 December 2006: US$ 7,510) has not been recognized as it is not probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilized.

At 31 December 2007 the Group has not recognized a deferred tax liability in respect of US$ 28,408 (31 December 2006: US$ 20,674) 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.

29. Discontinued Operations

In 2007 the Group ceased to classify OAO Izhorskiye Zavody and ZAO Komplekt Atom Izhora as discontinued operation and ceased to present in the balance sheet as held for sale the respective assets and liabilities due to the significant uncertainty around availability for immediate sale in their present condition. Furthermore, the timing of the sale is not known at present and there is an absence of indicators for an extension of the allowed 12 months period from the date of classification. The Group has also initiated a significant modernisation of property, plan and equipment of OAO Izhorskiye Zavody and concluded a number of new contracts for construction of equipment for nuclear power stations.

The results of operations of OAO Izhorskiye Zavody and ZAO Komplekt Atom Izhora which were previously presented in discontinued operations have been reclassified and included in income from continuing operations for 2006 with no effect on the results of operation for 2006 (Note 6).

29. Discontinued Operations (Continued)

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

	Year ended 31 December 2007	Year ended 31 December 2006
Revenue	-	42,718
Expenses	-	(90,070)
Loss before tax of discontinued operations	**-**	**(47,352)**
Income tax (expense)/benefit	-	7,230
Loss for the year from discontinued operations	**-**	**(40,122)**

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

	Year ended 31 December 2007	Year ended 31 December 2006
Operating cash flows	-	(32,667)
Investing cash flows	-	15,746
Financing cash flows	-	7,987
Effect of exchange rate changes	-	623
Total cash flows	**-**	**(8,311)**

30. Provisions for Liabilities and Charges

	Provision for loss-making contracts	Provision for warranties	Provision for legal claims	Provision for spoilage	Other provisions	Total
At 1 January 2007	**1,219**	**4,666**	**200**	**2,747**	**815**	**9,647**
Transfer from non-current assets held for sale		174	-	-	-	174
(Used)/ charge	(538)	(844)	-	(165)	688	(859)
Disposal of subsidiaries	(51)	(474)	-	(2,405)	-	(2,930)
Exchange differences	66	321	15	151	92	645
At 31 December 2007	**696**	**3,843**	**215**	**328**	**1,595**	**6,677**

	Provision for loss-making contracts	Provision for warranties	Provision for legal claims	Provision for spoilage	Other provisions	Total
At 1 January 2006	**2,011**	**4,388**	**1,154**	**445**	**1,048**	**9,046**
Transfer to non-current assets held for sale	-	(174)	-	-	-	(174)
Used/ (charge)	(994)	98	(1,060)	2,188	(398)	(166)
Exchange differences	202	354	106	114	165	941
At 31 December 2006	**1,219**	**4,666**	**200**	**2,747**	**815**	**9,647**

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$ 696 will be utilised during 2008-2009.

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$ 3,843 (2006: US$ 4,666) has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns.

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 2007 of US$ 215 is expected to be utilised during 2008. Management believes that 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 2007.

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$ 328 will be used during 2008.

31. Contingencies, Commitments and Operating Risks

Capital commitments

As at 31 December 2007 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for US$ 95,808 (31 December 2006: US$ 7,114).

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 proceeding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2007 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

Russian tax legislation does not provide definitive guidance in certain areas, specifically in deductibility of certain expenses and recovery of VAT in accordance with Tax Code. From time to time, the group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The Group estimated possible tax obligations from the impact of any challenge by the tax authorities are approximately US$ 20 million (2006: US$ 16 million), out of which estimated obligations for 2006 – 2007 amounted to US$ 11 million.

Insurance policies

The Group insures all significant property and work-in-progress and shipments in relation to significant contracts. As at 31 December 2007, most of the Group’s property is insured.

Environmental matters

The enforcement of environmental regulation in the 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$ denominated loans issued to third party. The total amount of guarantee is US$ 22,550 (2006: US$ 115).

The Group borrowings and its fulfillment of contractual obligations were secured by third party guarantees in the amount of US$ 686 (2006: US$ 25,671).

32. 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 21).

32. Earnings per Share (Continued)

Earnings per share from continuing operations are calculated as follows:

Basic earnings per share

	Year ended 31 December 2007	Year ended 31 December 2006 (Re-presented)
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/(loss) for the year attributable to the Group's equity holders	**123,853**	**(3,795)**
Basic earnings per share	**4.004**	**(0.123)**

Diluted earnings per share

There have been no transactions that would result in a dilution of earnings per share.

33. Principal Subsidiaries

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

Entity	Country of Incorporation	Activity	31 December 2007 % of share capital	31 December 2006 % of share capital
OAO Izhorskiye Zavody ("Izhorskiye Zavody") [1]	Russia	Production of equipment for nuclear power plants and mining equipment	80.1	80.1
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 Kartex	Russia	Production of mining equipment	80.1	80.1
OOO OMZ Sibir	Russia	Sales of mining equipment	100	100
OOO OMZ	Russia	Corporate services	100	100
OOO IZ-ZMK	Russia	Production of steel constructions	80.1	80.1
ŠKODA JS a.s.	Czech Republic	Production of equipment for nuclear power plants	100	100
PILSEN STEEL s.r.o.[2]	Czech Republic	Production of specialty steels	100	-
TECHENG CZ s.r.o. (Techeng)	Czech Republic	Building owner	100	-
CHETENG Engineering s.r.o. (Cheteng)	Czech Republic	Research Studies Institute	100	-
Uralmash CJSC	Russia	Production of drilling, mining and metallurgical equipment	50	-
OAO Ural Heavy Machine-Building Plant ("Uralmash")[2]	Russia	Production of drilling, mining and metallurgical equipment	-	74.2
OOO UralmashSpecstal[2]	Russia	Production of specialty steels	-	74.2
OOO OMZ Kran[2]	Russia		-	74.2
ŠKODA Hute s.r.o.[3]	Czech Republic	Production of specialty steels	-	100
ŠKODA Kovarny s.r.o. [3]	Czech Republic	Production of specialty steels	-	100

[1] 40% of the Groups' shares in Izhorskiye Zavody is pledged as collateral under long-term bank loan denominated in RR (Note 18).

[2] On 30 September 2007 the Group transferred its entire holding in OAO Ural Heavy Machine-Building Plant, OOO UralmashSpecstal, OOO OMZ Kran to Uralmash CJSC (Note 34).

[3] Effective from June 2007 ŠKODA Hute s.r.o. and ŠKODA Kovarny s.r.o. were legally merged into a single legal entity – PILSEN STEEL s.r.o..

34. Business Combinations and Disposals

Acquisition of Techeng CZ, s.r.o, and Cheteng Engineering, s.r.o.

On 31 October 2007 the Group acquired 100% of the share capital of TECHENG CZ, s.r.o., and CHETENG Engineering, s.r.o., registered in the Chech Republic. TECHENG CZ, s.r.o. owns the building which is primarily rented out to CHETENG Engineering, s.r.o. – scientific research engineering institute. The Group considers both subsidiaries to represent a single business.

For the period from the date of acquisition to 31 December 2007 the companies did not contribute materially to revenue or profit. If the acquisition had occurred on 1 January 2007, Group revenue and profit for 2007 would not change significantly.

Details of the assets and liabilities acquired and goodwill arising are as follows:

	Note	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents		16	16
Property, plant and equipment	13	927	8,949
Intangible asset	14	-	6,563
Other assets		1	1
Deferred tax liability	28	(140)	(2,913)
Other liabilities		(280)	(280)
Net assets		**524**	**12,336**
Goodwill arising from the acquisition	14		1,247
Total purchase consideration			**13,583**
Less: cash and cash equivalents of subsidiary acquired			(16)
Outflow of cash and cash equivalents on acquisition			**13,567**

The purchase consideration comprises cash and cash equivalents paid of US$ 13,678.

The valuation of property, plant and equipment of TECHENG CZ, s.r.o. was performed by an independent professional appraiser.

The amounts recognised in respect of the acquired identifiable intangible assets and goodwill are determined on a provisional basis. Management is required to finalise the accounting within twelve months from the date of acquisition. As the Group has changed its initial plans regarding usage of these subsidiaries after the balance sheet date and these subsidiaries were disposed in a period less than 12 months after the acquisition date (Note 38) no final fair value valuation of identifiable assets was made. The consideration received on this disposal does not significantly differ from the funds paid by the Group on the acquisition.

The provisionally determined goodwill is primarily attributable to deferred income tax accrued on provisionally determined fair value of intangible assets acquired.

Investment in the joint venture Machine-Building Corporation Uralmash, CJSC (or Uralmash CJSC)

In September 2007 the Group and Dalmers Service Limited transferred the control over several of their subsidiaries to a newly established jointly controlled entity Uralmash CJSC.

The Group transferred 92.52% of ordinary shares and 19.12% of preferences shares (entire interest owned by the Group) of Uralmash and related subsidiaries. The other venture, Dalmers Service Limited, transferred 99.97% share capital of OAO Machine-building Corporation ORMETO-UUMZ and cash in the amount of US$ 27 mln.

Both parties have equal voting rights over the joint venture’s activity and effective ownership of 50% and 50%.

The joint venture was created to increase production synergies in the market of manufacturing of equipment and machines for oil, gaz, mining industries and to increase combined cost savings.

The Group recognised its interest in the jointly controlled entity using the equity method.

34. Business Combinations and Disposals (Continued)

Investment in the joint venture Machine-Building Corporation Uralmash, CJSC (or Uralmash CJSC) (Continued)

As a result of the transaction, the Group:

- Derecognised negative net assets of the business disposed in the amount of US$ 40,670 as follows:

	IFRS carrying amount immediately before disposal
Cash and cash equivalents	2,337
Inventories	62,239
Trade and other receivables	93,156
Property, plant and equipment	18,418
Intangible asset	1,250
Other non-current assets	1,544
Trade and other payables	(145,872)
Short-term borrowings	(73,104)
Deferred tax liabilities, net	(638)
Net assets	**(40,670)**

- Recognized a gain of US$ 136,962 which is reported as a part of the Other operating income and expenses for the year ended 31 December 2007 (Note 26) and determined as difference between 50% of fair value of transferred business and carrying value of the net assets transferred out to the jointly controlled entity. Fair value of the transferred business by the Group was performed by independent professional appraiser.
- Recognised the investments in the jointly controlled entity at fair value of US$ 103,568, which incorporates the fair value of net assets transferred by Dalmers Service Limited to the jointly controlled entity, which was performed by independent professional appraisal. This fair value includes goodwill in the amount of US$ 21,023.

The interest in the jointly controlled entity owned by the Group as of 31 December 2007 is as follows:

	Share of the Group in the jointly controlled entity
Current assets	102,514
Property, plant and equipment	120,971
Other non-current assets (including goodwill)	30,232
Current liabilities	(126,203)
Non-current liabilities	(32,296)
Net assets owned by the Group	**95,218**

Result from operations for the 4th quarter 2007 of the jointly controlled entity:

Revenue	36,611
Operating and other expenses	(44,341)
Loss before tax	**(7,730)**
Income tax expense	(283)
Loss attributable to the Group	**(8,013)**

Changes in the carrying amount of equity investment are as follows:

Fair value of investment in Uralmash CJSC	103,568
Loss attributable to the Group	(8,013)
Exchange difference	(337)
Investment in Uralmash CJSC as of 31 December 2007	**95,218**

As of 31 December 2007 created jointly controlled entity had contractual commitments for the purchase of property, plant and equipment from third parties for US$ 1,230.

34. Business Combinations and Disposals (Continued)

Disposals

In March 2007 the Group sold its 100% interest in LLC OMZ-DRO to third party for US$ 2,225. The net assets of the subsidiary disposed at the date of disposal totalled US$ 2,411 and the Group recorded a loss from the disposal of US$ 186 within Other operating income and expenses. Cash consideration was not paid as of the reporting date.

	IFRS carrying amount immediately before disposal
Cash and cash equivalents	244
Inventories	5,687
Trade and other receivables	13,560
Property, plant and equipment	24
Other non-current assets	78
Trade and other payables	(21,993)
Deferred tax liabilities	(11)
Net assets	**(2,411)**

In October 2007 the Group sold its 100% share in ZAO Uralmash-Service, UMZ-Engineering LLC and ZAO Termit-63 to third party for total consideration of US$ 1 with gain recognised within operating income and expenses totalling US$ 1,693.

Effect of disposal on cash flow from investing activities

	US$
Cash proceeds	-
Cash disposed, including	
- transfer of shares in Uralmash and its subsidiaries to the jointly controlled entity	2,337
- disposal of LLC OMZ-DRO	244
- other disposals	40
Cash outflows from the sale of subsidiaries	**2,621**

35. Financial Risk and Capital Management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program seeks to minimize potential adverse effects on financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US$ and Euro. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

The Group manages its foreign exchange risk against its functional currency reducing the net positions in foreign currencies achieved through purchases of raw materials and services made in the same currency as that in which related contract revenue are expected.

In addition to that two Group companies (PILSEN STEEL s.r.o. and SKODA JS s.r.o.) incorporate the use of standard derivative hedging instruments in their control of foreign currency risk which include currency forwards and swaps as well as structured currency products. Maturity of these derivative contracts is always in line with the expected future foreign currency cash flows.

35. Financial Risk and Capital Management (Continued)

Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date relative to the Group's functional currency, with all other variables held constant:

				31 December 2007
	Euro weakening by 5%	Euro strengthening by 5%	US$ weakening by 5%	US$ strengthening by 5%
Income statement				
Revaluation of cash	716	(716)	8	(8)
Revaluation of trade receivables	-	-	1,998	(1,998)
Revaluation of payables	-	-	(982)	982
Revaluation of loans issues	4,731	(4,731)	-	-
Short-term borrowings	(2,261)	2,261	(1,372)	1,372
Long-term borrowings	(4,681)	4,681	-	-
Derivative financial assets	1,288	(1,288)	20	(20)
	(207)	**207**	**(328)**	**328**
Equity				
Derivative financial assets and liabilities	6,164	(6,164)	19	(19)

				31 December 2006
	Euro weakening by 5%	Euro strengthening by 5%	US$ weakening by 5%	US$ strengthening by 5%
Income statement				
Revaluation of cash	244	(244)	337	(337)
Revaluation of trade receivables	-	-	317	(317)
Revaluation of payables	-	-	(3,146)	3,146
Revaluation of loans issues	4,526	(4,526)	-	-
Short-term borrowings	(2,265)	2,265	(2,011)	2,011
Long-term borrowings	(4,370)	4,370	-	-
Derivative financial assets	2,284	(2,284)	-	-
	419	**(419)**	**(4,503)**	**4,503**
Equity				
Derivative financial assets and liabilities	5,737	(5,737)	-	-

(ii) Price risk

The Group is not exposed to price risk on trading commodities. The commodity price risk is arising due to purchases of nickel used for production purposes where one company of the Group is hedging floating price in contracts using commodity swaps. The Group actively manages this risk based on the plan of future consumption of nickel for a period of six months. The Group has unquoted equity investments in a few companies that are classified as available for sale investments.

(iii) Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. A change in interest rates may cause variations in interest income and expense. Monitoring of current market interest rates and analysis of the Group's interest-bearing position is performed by the corporate finance function as part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

The Group's income and operating cash flows are substantially independent of changes in market interest rates as interest rates for major part of short-term and long-term borrowings received by the Group is fixed.

35. Financial Risk and Capital Management (Continued)

Financial risk factors (Continued)

(a) Market risk (Continued)

(iv) Derivatives

Nominal and fair value of derivatives:

	Nominal value 31 December 2007		Nominal value 31 December 2006		Fair value 31 December 2007		Fair value 31 December 2006	
	Derivatives with positive fair value	Derivatives with negative fair value	Derivatives with positive fair value	Derivatives with negative fair value	Positive	Negative	Positive	Negative
Hedging instruments								
Currency derivatives	146,532	-	117,952	-	8,361	-	5,915	-
Commodity derivatives	-	3,886	-	-	-	(408)	-	-
Trading instruments								
Currency derivatives	14,363	-	25,077	1,020	737	-	2,405	(43)
Commodity derivatives	-	3,912	-	-	-	(375)	-	-

Volume of hedged cash flows:

Volume of hedged cash flows	**Within 1 year**		**1 – 5 years**	
Balance as at 31 December 2006	**Volume of hedged cash flows**	**Fair value of hedging derivatives**	**Volume of hedged cash flows**	**Fair value of hedging derivatives**
Currency risk exposure				
Hedging of receivables	106,934	4,498	13,367	1,428
Total	**106,934**	**4,498**	**13,367**	**1,428**

Volume of hedged cash flows	**Within 1 year**		**1 – 5 years**	
Balance as at 31 December 2007	**Volume of hedged cash flows**	**Fair value of hedging derivatives**	**Volume of hedged cash flows**	**Fair value of hedging derivatives**
Currency risk exposure				
Hedging of receivables	125,637	7,806	20,587	554
Commodity risk exposure				
Hedging of liabilities	(3,886)	(408)	-	-
Total	**121,751**	**7,398**	**20,587**	**554**

(b) Credit risk

Credit risk is a risk of financial loss to the Group if a customer or counterparty to transaction fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group's policy is generally to work with the customers on partial prepayment. Significant advances payments structure is incorporated into the contract with customers. Bank guarantees and letters of credit are used to secure receivables from the customers. Penalty interest on late payments is a compulsory preventative instrument for written contract relationships.

The Group has decentralized credit risk management function that is performed on individual company basis. Monitoring of credit quality of customers is performed by analyzing whether they are in difficult financial position or subject to bankruptcy. In addition, customers of equipment for nuclear power plants segment are government bodies or companies controlled by government. As of 31 December 2007 trade receivables and accounts due from customers for contract work related to equipment for nuclear power plants segment amounted to US$ 90,377 (2006: US$ 25,344). 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 (Note 10).

Cash and bank deposits are placed in financial institutions, which are considered to have minimal risk of default. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. See analysis of credit quality of bank balances in Note 9.

35. Financial and Capital Risk Management (Continued)

Financial risk factors (Continued)

(b) Credit risk (Continued)

The table summarizes the maxim exposure to credit risk.

Carrying amount as at 31 December 2007	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
Cash and cash equivalents	57,300	-	-	57,300
Trade receivables	115,643	16,203	7,167	139,013
Accounts due from customers for contract work	45,224	-	-	45,224
Other receivables	23,674	-	28,871	52,545
Promissory notes	2,261	-	4,988	7,249
Positive fair values of financial derivatives	8,573	-	-	8,573
Long-term loans issued	99,349	-	-	99,349
Long-term receivable from construction contracts	9,444	-	-	9,444
Restricted cash	2,872	-	-	2,872
	364,340	**16,203**	**41,026**	**421,569**

Carrying amount as at 31 December 2006	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
Cash and cash equivalents	32,939	-	-	32,939
Trade receivables	64,527	17,557	7,027	89,111
Accounts due from customers for contract work	15,763	-	-	15,763
Other receivables	4,869	-	7,407	12,276
Promissory notes	210	-	32	242
Positive fair values of financial derivatives	5,258	-	-	5,258
Long-term loans issued	95,005	-	-	95,005
Restricted cash	6,243	-	-	6,243
	224,814	**17,557**	**14,466**	**256,837**

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach the managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable loss or risking damage to the Group's reputation.

Prudent liquidity risk management includes maintaining sufficient cash and availability of funding from an adequate amount of committed credit facilities. Group maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Group's financial liabilities which will be settled on a gross basis into relevant maturity based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest together with the borrowings).

The maturity analysis of financial liabilities other than derivatives at 31 December 2007 is as follows:

	Less than 1 year	1-2 years	2-5 years	Total
Trade and other payables	163,467	3,857	-	167,324
Short-term borrowings	164,651	-	-	164,651
Long-term borrowings	-	162,262	-	162,262
Bonds	5,378	101,808	-	107,186
	333,496	**267,927**	**-**	**601,423**

35. Financial and Capital Risk Management (Continued)

Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The maturity analysis of financial liabilities other than derivatives at 31 December 2006 is as follows:

	Less than 1 year	1-2 years	2-5 years	Total
Trade and other payables	136,486	-	-	136,486
Short-term borrowings	111,346	-	-	111,346
Long-term borrowings	-	-	91,763	91,763
Bonds	5,013	65,740	-	70,753
	252,845	**65,740**	**91,763**	**410,348**

Contractual maturity obligation for derivatives at 31 December 2007:

	Total	Less than 3 months	3 - 12 months	1 - 5 years
Derivatives with positive fair value				
Currency derivatives				
Inflow of financial resources	181,375	35,030	123,898	22,447
Outflow of financial resources	(171,708)	(33,266)	(116,501)	(21,941)
Structured currency products				
Inflow of financial resources	3,393	-	3,393	-
Outflow of financial resources	(3,226)	-	(3,226)	-
Derivatives with negative value				
Commodity derivatives				
Outflow of financial resources	(804)	(145)	(594)	(65)

Contractual maturity obligation for derivatives at 31 December 2006:

	Total	Less than 3 months	3 - 12 months	1 - 5 years
Derivatives with positive fair value				
Currency derivatives				
Inflow of financial resources	178,201	45,448	116,576	16,177
Outflow of financial resources	(170,691)	(44,276)	(110,996)	(15,419)
Structured currency products				
Inflow of financial resources	18,149	3,445	11,756	2,948
Outflow of financial resources	(16,841)	(3,157)	(10,789)	(2,895)
Derivatives with negative value				
Currency derivatives				
Inflow of financial resources	1,020	-	1,020	-
Outflow of financial resources	(1,050)	-	(1,050)	-
Structured currency products				
Inflow of financial resources	-	-	-	-
Outflow of financial resources	-	-	-	-

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. For this purpose, the Group's capital is considered to be equity attributable to the shareholders of the Company. The Group capital management includes compliance with externally imposed minimal capital requirements arisen from relevant statutory legislation. There were no changes in the Group's approach to capital management during the year.

36. 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 (or disposal groups) 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.

37. Reconciliation of Classes of Financial Instruments with Measurement Categories

The following tables provide a reconciliation of classes of financial assets and liabilities with the measurement categories as of 31 December 2007:

	Loans and receivables	Held to maturity	Available for sale financial assets	Assets designated at FVTPL *	Financial derivatives - hedging	Total
ASSETS						
Cash and cash equivalents (Note 9)						
Cash on hand and balances with the bank	50,757	-	-	-	-	50,757
Cash equivalents	6,543	-	-	-	-	6,543
Trade and other receivables (Note 10)						
Trade receivables, net	131,846	-	-	-	-	131,846
Accounts due from customers for contract work	45,224	-	-	-	-	45,224
Forward foreign exchange contracts – cash flow hedges	-	-	-	766	7,807	8,573
Other receivables, net	23,658	-	-	-	-	23,658
Other current financial assets (Note 12)						
Derivatives	-	-	-	-	737	737
Promissory notes	-	2,261	-	-	-	2,261
Other non-current assets (Note 15)						
Long-term loans issued	99,349	-	-	-	-	99,349
Long-term receivables from construction contracts	9,444	-		-	-	9,444
Available-for-sale investments	-	-	4,428	-	-	4,428
Restricted cash	2,872	-	-	-	-	2,872
Forward foreign exchange contracts – cash flow hedges	-	-	-	-	554	554
TOTAL FINANCIAL ASSETS	**369,693**	**2,261**	**4,428**	**766**	**9,098**	**386,246**
NON-FINANCIAL ASSETS	-	-		-	-	**864,178**
TOTAL ASSETS	**369,693**	**2,261**	**4,428**	**766**	**9,098**	**1,250,424**

* FVTPL = fair value through profit and loss

All the group's financial liabilities except for derivatives are carries at amortised costs. Derivatives belong to the fair value through profit or loss measured at US$ 375 and financial derivatives – hedging at US$ 408.

37. Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

Comparative information for 2006:

	Loans and receivables	Held to maturity	Available for sale financial assets	Assets designated at FVTPL *	Financial derivatives - hedging	Total
ASSETS						
Cash and cash equivalents (Note 9)						
Cash on hand and balances with the bank	25,837	-	-	-	-	25,837
Cash equivalents	7,102	-	-	-	-	7,102
Trade and other receivables (Note 10)						
Trade receivables, net	82,083	-	-	-	-	82,083
Accounts due from customers for contract work	15,763	-	-	-	-	15,763
Forward foreign exchange contracts – cash flow hedges	-	-	-	766	5,941	6,707
Other receivables, net	4,869	-	-	-	-	4,869
Other current financial assets (Note 12)						
Derivatives	-	-	-	-	185	185
Promissory notes	-	210		-	-	210
Other non-current assets (Note 15)						
Long-term loans issued	95,005	-	-	-	-	95,005
Available-for-sale investments	-	-	2,225	-	-	2,225
Restricted cash	6,243	-	-	-	-	6,243
Forward foreign exchange contracts – cash flow hedges	-	-	-	-	1,429	1,429
TOTAL FINANCIAL ASSETS	**236,902**	**210**	**2,225**	**766**	**7,555**	**247,658**
NON-FINANCIAL ASSETS						**759,465**
TOTAL ASSETS	**236,902**	**210**	**2,225**	**766**	**7,555**	**1,007,123**

* FVTPL = fair value through profit and loss

38. Post Balance Sheet Events

The uncertainty in the global markets combined with other local factors during 2008 and in the beginning of 2009 led to very high volatility in the Russian Stock Markets and at times much higher than normal interbank lending rates.

Business segments in which the Group operates in the Russian Federation like in other countries is sensitive to adverse fluctuations in economic conditions and may occasionally experience significant volatility in market prices, which took place in the end of 2008. As a result the management of the Group is implementing a cost-cutting plan and tightening of the management of its operating cash in- and outflows, weekly monitoring of its debt portfolio and maintaining the availability of funds to cover current debt position of the Group, as well as adjusting the investing program previously announced and retargeting of production facilities of some subsidiaries (especially, included in mining equipment segment).

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group’s business in the current circumstances.

Dividends

On 20 June 2008 the Annual General Meeting of Shareholders of the Company declared dividends for 2007. A decision was taken not to pay dividends on ordinary shares, while a preferred stock dividend payout for 2007 was approved in the amount of 12% of par value. The total amount of dividends payable is RR 33 thousand.

38. Post Balance Sheet Events (Continued)

Disposals

In May 2008 the Group disposed of 100% of OOO Territorialnaya Kompaniya to OAO UZTM for a total consideration of US$ 21 (or RR 500 thousand) with a recognised gain from disposal of US$ 880.

In July 2008 the Group disposed of 100% of OOO Progress to third parties for a total consideration of US$ 25,667 (RR 599 million) with a recognised gain of approximately US$ 2 mln (RR 41 mln).

In September 2008 the Group disposed of 100% of CHETENG CZ, s.r.o and TECHENG CZ s.r.o. to ZAO “Gruppa Himmash” for a total consideration of US$ 13 642 (RR 345 million) with no material losses or gains.

In December 2008 the Group settled contracts for the sale of 19.89% of shares in its subsidiary Izhorskiye Zavody with the buy-back obligation for the total consideration of approximately US$ 7,866 (RR 221.3 million). In accordance with these contracts the obligation for the buy-back should be settled in 1 year for the total consideration of approximately US$ 8,570 (RR 241 million).

Acquisitions

In September 2008 the Group acquired 20.83% interest in OAO Mashinostroitelny zavod “ZIO-Podolsk” from the Group’s shareholder ZAO Forpost-management for total consideration of approximately US$ 70,588 (RR 1,704 million).

In December 2008 the Group acquired 10.698% ownership interest in ZAO Atomstroyexport from the Group’s shareholder ZAO Forpost-management for a consideration of US$ 33,770 (RR 950,292 thousand).

In December 2008 the Group acquired 15% interest in Closed Joint Stock Company “Chemical Engineering Group” for total consideration of approximately US$ 31,990 (RR 900.2 million).

Bonds

On 5 June 2008 the Group issued Series 6 bonds with a nominal value of RR 1 each. The Series 6 issue is for RR 1.6 billion and carries a term of five years, semi-annual coupons and a pre-maturity buyback option in a year and a half. Funds received will be used to restructure existing credit portfolio and to support and expand the modernisation of the property, plant and equipment of the Group.

During 2008 the Group paid out US$ 30,496 (RR 759,764 thousand) on bonds issues 4, 5 and 6.

Other

In February 2009 “Gazprombank” (Open Joint-stock Company) obtained control over ZAO “Forpost-management” by acquiring 85.54% of its shares. As of 4 March 2009 44.41% of the Company’s voting shares belong to ZAO “Forpost-management”.