OMZ (Uralmash-Izhora Group)

International Financial Reporting Standards
Interim Consolidated Financial Statements

The Six months ended June 30, 2004

Contents

(in thousands of US dollars except for per share amounts)

		Continuing operations		Discontinued operations	Total
	Note	June 30, 2004	December 31, 2003	December 31, 2003	December 31, 2003
ASSETS					
Current assets:					
Cash and cash equivalents	7	9,371	8,049	16,012	24,061
Trade and other receivables	8	296,827	287,062	120,462	356,138
Inventories	9	165,153	131,655	62,968	194,623
Other current financial assets	10	835	4,778	6,325	8,253
Total current assets		**472,186**	**431,544**	**205,767**	**583,075**
Non-current assets:					
Property, plant and equipment	11	123,482	133,659	80,265	213,924
Deposits on investments	12	5,253	5,031	10	5,041
Intangible assets	13	9,089	9,805	4,409	14,214
Deferred tax asset	27	8,231	8,895	2,274	11,169
Non-current financial assets	14	18,205	91,749	44,670	49,851
Negative goodwill	15	(24,240)	(26,977)	(15,519)	(42,496)
Total non-current assets		**140,020**	**222,162**	**116,109**	**251,703**
Total assets		**612,206**	**653,706**	**321,876**	**834,778**
LIABILITIES					
Current liabilities:					
Trade and other payables	16	286,555	258,949	104,906	323,496
Short-term borrowings	17	184,258	195,036	24,228	205,387
Total current liabilities		**470,813**	**453,985**	**129,134**	**528,883**
Non-current liabilities:					
Long-term borrowings	17	68,038	43,503	183	43,686
Long-term taxes payable	18	23,120	27,738	2,586	30,324
Deferred tax liability	27	6,748	8,121	14,227	22,348
Other long-term liabilities	19	1,421	1,903	37,612	39,515
Total non-current liabilities		**99,327**	**81,265**	**54,608**	**135,873**
Total liabilities		**570,140**	**535,250**	**183,742**	**664,756**
EQUITY					
Equity and reserves attributable to the Company's equity holders:					
Share capital	20	401	394	86,568	394
Share premium	20	99,490	96,487	-	96,487
Treasury shares	20	(42,547)	(33)	-	(33)
Currency translation reserve		(283)	376	2,761	3,137
Retained earnings (deficit)		(38,026)	(1,953)	7,252	5,299
		19,035	**95,271**	**96,581**	**105,284**
Minority interest		23,031	23,185	41,553	64,738
Total equity		**42,066**	**118,456**	**138,134**	**170,022**
Total liabilities and equity		**612,206**	**653,706**	**321,876**	**834,778**

Chief Executive Officer
Lipsky S.V.

Chief Financial Officer
Filatov S.N.

29 October 2004

The companying notes are an integral part of the interim financial statements

(in thousands of US dollars except for per share amounts)

		Six month, ended June 30, 2004			Six month, ended June 30, 2003		
	Note	Continuing operations	Discontinued operations	TOTAL	Continuing operations	Discontinued operations	TOTAL
Sales		176,157	144,841	320,998	133,424	75,123	208,547
Cost of sales	22	(123,080)	(104,928)	(228,008)	(94,829)	(60,316)	(155,145)
Gross profit		**53,077**	**39,913**	**92,990**	**38,595**	**14,807**	**53,402**
General and administrative expenses	24	(41,992)	(19,323)	(61,315)	(39,161)	(7,932)	(47,093)
Selling expenses	23	(5,806)	(2,608)	(8,414)	(3,398)	(971)	(4,369)
Other operating income and expenses	25	8,209	(516)	7,693	13,223	(6)	13,217
Operating profit		**13,488**	**17,466**	**30,954**	**9,259**	**5,898**	**15,157**
Finance cost – net	26	(7,934)	84	(7,850)	(3,589)	(6,494)	(10,083)
Loss from equity accounted investments		-	-	-	(4,366)	(273)	(4,639)
Monetary gain		-	(115)	(115)	-	793	793
Profit (loss) before taxation		**5,554**	**17,435**	**22,989**	**1,304**	**(76)**	**1,228**
Income tax	27	(195)	(7,205)	(7,400)	3,349	817	4,166
Profit (loss) for the year before loss from discontinued operations		**5,359**	**10,230**	**15,589**	**4,653**	**741**	**5,394**
Loss from discontinued operations		(50,271)	(5,952)	(56,223)	-	-	-
Profit (loss) for the year		**(44,912)**	**4,278**	**(40,634)**	**4,653**	**741**	**5,394**
Attributable to:							
Equity holders of the Company	20	(44,413)	-	(44,413)	5,431	1,719	7,150
Minority interest	20	(499)	4,278	3,779	(778)	(978)	(1,756)
		(44,912)	**4,278**	**(40,634)**	**4,653**	**741**	**5,394**
Earnings per share attributable to the equity holders of the Company (in US dollars)							
- basic				**(1.32)**			**0.23**
- diluted				**(1.21)**			**0.23**

(in thousands of US dollars except for per share amounts)

		Six month, ended June 30, 2004			Six month, ended June 30, 2003		
		Continuing operations	**Discontinued operations**	**TOTAL**	**Continuing operations**	**Discontinued operations**	**TOTAL**
Cash flows from operating activities							
Profit before taxation		5,554	17,434	22,988	1,304	(76)	1,228
Adjustments for:							
Depreciation and amortisation	22,24	5,037	5,544	10,581	4,273	2,495	6,768
Change in provisions for impairment and other provisions	25	1,151	(572)	579	1,603	303	1,906
Gain on sale of non-core business units	25	(5,276)	(12)	(5,288)	(12,971)	-	(12,971)
Gain from disposal of property, plant and equipment	25	(1,367)	(263)	(1,630)	268	-	268
Gain on release from government financing and tax penalties	25	-	159	159	-	(556)	(556)
Net finance cost adjusted for foreign exchange differences	26	9,797	1,150	10,947	7,413	-	7,413
Unrealized foreign exchange effect on non-operating items		(754)	(1,119)	(1,873)	(2,187)	(1,094)	(3,281)
Inflation effect on non-operating items		-	115	115	(326)	(163)	(489)
Adjustments for non-cash investing activities		-	-	-	1,963	-	1,963
Operating cash flows before working capital changes		**14,142**	**22,436**	**36,578**	**1,340**	**909**	**2,249**
Decrease (increase) in accounts receivables and prepayments		(5,182)	(34,451)	(39,633)	(17,308)	(44,176)	(61,484)
Decrease (increase) in inventories		(33,498)	(21,446)	(54,944)	(15,665)	(14,889)	(30,554)
Increase (decrease) in trade and other accounts payable		19,801	16,701	36,502	32,906	55,710	88,616
Cash (used in) provided from operations		**(4,737)**	**(16,760)**	**(21,497)**	**1,273**	**(2,446)**	**(1,173)**
Income taxes paid		(727)	(3,171)	(3,898)	(513)	(1,724)	(2,237)
Net cash (used in) provided from operating activities		**(5,464)**	**(19,931)**	**(25,395)**	**760**	**(4,170)**	**(3,410)**
Cash flows from investing activities:							
Proceeds from sale of non-core business units		37,765	(120)	37,645	1,712	-	1,712
Purchases of property, plant and equipment		(3,386)	(4,667)	(8,053)	(2,209)	(5,470)	(7,679)
Proceeds from the sale of property, plant and equipment		1,145	396	1,541	-	-	-
Net sale (purchases) of financial assets		(1,493)	(337)	(1,830)	-	8,342	8,342
Business combinations		-	-	-	(13,358)	-	(13,358)
Purchase of associates		-	-	-	(4,940)	-	(4,940)
Net change in deposits		1,414	1,759	3,173	-	-	-
Interest received		934	201	1,135	17	984	1,001
Net cash (used in) provided from investing activities		**36,379**	**(2,768)**	**33,611**	**(18,778)**	**3,856**	**(14,922)**
Cash flows from financing activities:							
Proceeds from borrowings		232,704	33,182	265,886	1,556	-	1,556
Repayment of borrowings		(248,909)	(12,392)	(261,301)	22,285	-	22,285
Repayment of long-term taxes payable		(1,251)	(688)	(1,939)	(2,998)	(520)	(3,518)
Cash received from shareholders		-	2,493	2,493	-	-	-
Interest paid		(12,631)	(1,513)	(14,144)	(9,009)	676	(8,333)
Dividends paid		(1)	-	(1)	(1)	-	(1)
Net cash (used in) provided from financing activities		**(30,088)**	**21,082**	**(9,006)**	**11,833**	**156**	**11,989**
Effect of exchange rate changes		495	229	724	996	249	1,245
Net increase (decrease) in cash and cash equivalents		1,322	-	1,322	(5,189)	91	(5,098)
Cash and cash equivalents at the beginning of the period		8,049	-	8,049	13,576	17,280	30,856
Cash and cash equivalents at the end of the period		**9,371**	**-**	**9,371**	**8,387**	**17,371**	**25,758**

(in thousands of US dollars except for per share amounts)

	Attributable to shareholders					Minority interest	Total equity
	Share capital	Share premium	Treasury shares	Currency translation reserve	Retained earnings		
Balance at December 31, 2002	**366**	**83,662**	**(38)**	**1,998**	**(18,244)**	**64,369**	**132,113**
Currency translation	17	3,942	(2)	91	(860)	3,033	6,221
Net income recognised directly in equity	17	3,942	(2)	91	(860)	3,033	6,221
Profit for six months	-	-	-	-	7,150	(1,756)	5,394
Total recognised income	17	3,942	(2)	91	6,290	1,277	11,615
Employees share option scheme:	-	-	-	-	-	-	-
- value of employees services	-	2,434	-	-	-	-	2,434
- proceeds from sale of treasury shares	-	327	2	-	-	-	329
Dividends	-	-	-	-	(1)	-	(1)
Business combinations	-	-	-	-	-	978	978
Balance at June 30, 2003	**383**	**90,365**	**(38)**	**2,089**	**(11,955)**	**66,624**	**147,468**
Balance at December 31, 2003	**394**	**96,487**	**(33)**	**3,137**	**5,299**	**64,738**	**170,022**
Currency translation	7	1,420	-	(659)	1,089	956	2,813
Net income recognised directly in equity	7	1,420	-	(659)	1,089	956	2,813
Loss for six months	-	-	-	-	(44,413)	(499)	(44,912)
Total recognized income	7	1,420	-	(659)	(43,324)	457	(42,099)
Additional issue of shares	-	1,583	-	-	-	-	1,583
Employees share option scheme:	-	-	-	-	-	-	-
- value of employees services	-	-	-	-	-	-	-
- proceeds from sale of treasury shares	-	-	-	-	-	-	-
Purchase o treasury shares	-	-	(42,514)	-	-	-	(42,514)
Dividends	-	-	-	-	(1)	-	(1)
Disposal of non-core businesses	-	-	-	(2,761)	-	(42,164)	(44,925)
Business combinations	-	-	-	-	-	-	-
Balance at June 30, 2004	**401**	**99,490**	**(42,547)**	**(283)**	**(38,026)**	**23,031**	**42,066**

1. The OMZ Group and its operations

OAO OMZ and its subsidiaries ("OMZ" or "the Group") principal activities are engineering, manufacturing and marketing of machinery equipment. 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 Russia. The parent company, OAO OMZ ("the Company") was incorporated as an open joint stock company in Ekaterinburg of the Russian Federation in 1996. OMZ's principal subsidiaries are disclosed in note 29. These are incorporated under the Laws of the Russian Federation. At June 30, 2004 the Group employed approximately 22,241 employees (December 31, 2003: 42,988). The decrease in number of employees was primarily due to the disposal of OMZ-MNP.

In May 2004 the Group sold OMZ MNP comprising primarily of the oil and gas equipment and shipbuilding segments for US$ 50 million to its management (note 6).

In July 2004 Group acquired 100 percent share in three companies (Skoda JS and Skoda Steel (which includes Skoda Hute and Skoda Kovarny)) from ŠKODA HOLDING (note 31).

2. Financial position

During the first six month of 2004 the Group had negative cash flows from operating activities of US$5,464.

The negative cash flows resulted from significant investments in working capital as a result of the timing of OMZ's portfolio of contracts. Management believes that the Group has sufficient financial resources to maintain current operations. Management also believes that the current market situation in Russia and projected future business development of the Group will allow management to improve the Group's cash flow from operations.
Over the past year the Group has successfully worked with banks and financing institutions to secure the necessary financing for the long-term contracts in process and for other investing needs. During the period from July until October 2004 OMZ has repaid or successfully negotiated refinancing of debt payable in this period. Based on the expected cash flows from operating activity and the status of negotiations with several banks, management of the Group expects to be able to cover existing liabilities in accordance with contract terms.

3. Basis of presentation of the financial statements

These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the IASB ("IFRS").

The Group companies maintain their accounting records in Russian Roubles ("RR") or the respective functional currency of foreign subsidiaries and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation or 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.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make prudent estimates and assumptions that affect the reported results and financial situation. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Other areas where judgements have been made include provisions for trade and other receivables (note 8) and provisions for inventory (note 9).

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the measurement currency'). The Group's measurement currency is the Russian Rouble. As management considers that the US dollar is a more convenient currency for users of these consolidated financial statements, these consolidated financial statements are presented in US dollars - the Group's presentation currency. Differences arising from the translation of measurement currency to the reporting currency are included in equity as a currency translation reserve.

Monetary assets and liabilities, which are held by Group entities and denominated in foreign currencies at June 30, 2004, are translated into the Russian Rouble at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

The results and financial position of the Group entities that have a measurement currency different from the currency of a hyperinflationary economy and presentation currency are translated into the reporting currency as follows:

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

(ii) income and expenses for each income statement item 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 currency translation reserve in equity.

The results and financial position of the Group entities that have a measurement currency of a hyperinflation economy are translated into the reporting currency at closing rates.

At June 30, 2004, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (US$) 1=RR 29.03 (December 31, 2003 USD1= 29.45). Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

Accounting for the effects of inflation

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

4. Significant accounting policies

4.1 Group accounting

Subsidiary undertakings

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

Minority interest at the balance sheet date represents the minority shareholders' portion of fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the combination.

Associated undertakings

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

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

4.2 Investments

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

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Current loans and receivables are included in trade and other receivables (note 8) and non-current loans and receivables included in non-current financial assets (note 14).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

Available-for-sale financial assets

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

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

4.3 Cash and cash equivalents

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

4.4 Trade receivables

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

4.5 Value added tax

Value added taxes related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as a current asset and liability. VAT paid on advances received is presented in the balance sheet as current assets. VAT on advances received is reclaimable against respective sales VAT upon delivery of goods or services. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

4.6 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 overhead (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

4.7 Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost. At each reporting date the management assess 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 statement of operations. 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 assets recoverable amount.

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

	Number of years
Buildings	25 to 50
Plant and machinery	15
Other	3 to 5

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

4.8 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisition of subsidiary undertakings is included in intangible assets. Goodwill on acquisition of associated undertakings is included in investments in associated undertakings. Goodwill is amortised using the straight-line method over its estimated useful life.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the disposed entity

Research and development

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

Other intangible assets

Expenditure on acquired patents, trademarks and licences is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years.

Impairment of intangible assets

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

Useful lives

The average useful period for goodwill is 17 years and for other intangible assets 5 years.

4.9 Negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the income statement of operations when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the statement of operations over the remaining weighted average useful life of depreciable and amortisable assets acquired; negative goodwill in excess of the fair values of those assets is recognised in the income statement immediately.

The average amortisation period for negative goodwill is 11 years.

4.10 Borrowings

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

4.11 Deferred income taxes

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

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

4.12 Provisions

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

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

4.13 Equity

Share capital

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

Treasury shares

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

Dividends

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

4.14 Construction contracts

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

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 likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

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

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

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

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

4.15 Revenue recognition

Sales under contracts different from construction contracts are normally recognised when goods are shipped and the buyer accepts delivery unless these sales are conditional upon delivery of supplementary services. In this case revenue from sales of goods and services are recognised for the contract as a whole when the services is performed; payments received for the goods are recognised then as deferred income.

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

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

4.16 Employee benefits

Share-based compensation

The Group operates an equity-settled, share-based compensation plan. Share options granted after November 2002 have been accounted for in accordance with provisions of IFRS 2 "Share based payments". The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Social costs

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

Pension costs

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the statement of operations; however, separate disclosures are not provided, as these costs are not material.

4.17 Embedded derivatives

Foreign currency forwards, which are embedded into purchase or sales contracts denominated in foreign currencies, are separated from the host contracts and accounted for as derivatives when they are not closely related to the host contract. They are classified as trading investments and included in current assets. Derivatives are subsequently carried at fair value and gains and losses arising from changes in the fair value of derivatives are included in the income statement in the period in which they arise. Assets purchased are recognised in the balance sheet at the forward rate determined at the contract date. Fair value gains/losses are realised upon the settlement of the corresponding liability denominated in roubles.

4.18 Segment reporting

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.

5. Segment information

Primary reporting format – business segments

The Group is organised into four main business segments:

Equipment for nuclear power plants segment (NPPEQ) production is based at Izhorskiye Zavody 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 Company comprises of a reactor vessel, in-vessel components, and a cover with extending pipes.
- spent nuclear fuel containers for nuclear power blocks. The Company manufactures containers for storage and transportation of spent nuclear fuel from pressurized water reactors and scientific nuclear reactors.
- a wide range of spare parts.

In addition, the segment provides services for installation of nuclear power plant equipment and project management of long-term contracts for 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 molding 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 machinery equipment segment, equipment for nuclear power plants. Specialty steels are manufactured primarily at Uralmash and Izhorskiye Zavody.

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. The main production sites of machinery equipment manufacturing segment are Uralmash and Izhorskiye Zavody.

(in thousands of US dollars except for per share amounts)

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 Izhorskiye Zavody, Uralmash. It also comprises the manufacture of equipment for oil refineries and other activities.

In May 2004 the Group sold OMZ MNP comprising primarily of the oil and gas equipment and shipbuilding to certain members of its management.

Sales or other transactions between the business segments are based on commercial terms that are available to third parties. Unallocated costs represent corporate expenses. 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 items such as taxation and certain 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.

Continuing operations

Six months ended June 30, 2004	NPPEQ	STEEL	MMEQ	MINEQ	Other	Eliminations and unallocated items	Total continuing operations
Total sales	58,593	59,052	48,755	42,512	54,464	(87,219)	176,157
Less intersegment sales	-	27,266	30,363	-	30,109	(87,738)	-
External sales	58,593	31,786	18,392	42,512	24,355	519	176,157
Gross margin	23,233	6,154	6,169	7,770	10,874	(1,123)	53,077
Gross margin, %	**40%**	**10%**	**13%**	**18%**	**20%**		**30%**
Segment result	13,587	(953)	(57)	314	4,686	(458)	17,119
Unallocated operating income and expenses						(3,631)	(3,631)
Operating profit	**13,587**	**(953)**	**(57)**	**314**	**4,686**	**(4,089)**	**13,488**
Net finance cost	-	-	-	-	-	(7,934)	(7,934)
Loss from equity accounted investments	-	-	-	-	-	-	-
Profit before taxation	**13,587**	**(953)**	**(57)**	**314**	**4,686**	**(12,023)**	**5,554**
Income tax expense						(195)	(195)
Profit for six months	**13,587**	**(953)**	**(57)**	**314**	**4,686**	**(12,218)**	**5,359**
Segment assets	222,435	63,390	175,351	46,561	36,268	-	544,005
Unallocated assets						68,201	68,201
Total assets	**222,435**	**63,390**	**175,351**	**46,561**	**36,268**	**68,201**	**612,206**
Segment liabilities	121,379	32,916	57,910	16,633	22,372	-	251,210
Unallocated liabilities						318,930	318,930
Total liabilities	**121,379**	**32,916**	**57,910**	**16,633**	**22,372**	**318,930**	**570,140**
Capital expenditure	135	1,277	942	-	2,303	-	4,657
Depreciation and amortisation	1,013	1,155	1,505	-	1,364	-	5,037
Change in other provisions	(71)	(569)	1,595	(527)	(122)	(497)	(191)
Change in provisions for impairment of property, plant and equipment and intangible assets	-	-	1,342	-	-	-	1,342

(in thousands of US dollars except for per share amounts)

Six months ended June 30, 2003	**NPPEQ**	**STEEL**	**MMEQ**	**MINEQ**	**Other**	**Eliminations and unallocated items**	**Total continuing operations**
Total sales	41,212	47,785	58,857	22,858	31,713	(69,001)	133,424
Less intersegment sales	-	26,013	32,317	-	10,671	(69,001)	-
External sales	41,212	21,772	26,540	22,858	21,042	-	133,424
Gross margin	13,818	7,080	9,341	5,241	4,417	(1,302)	38,595
Gross margin, %	**34%**	**15%**	**16%**	**23%**	**14%**		**29%**
Segment result	6,112	367	(2,627)	2,058	(1,010)	-	4,900
Unallocated operating income and expenses	-	-	-	-	-	4,359	4,359
Operating profit	**6,112**	**367**	**(2,627)**	**2,058**	**(1,010)**	**4,359**	**9,259**
Net finance cost	-	-	-	-	-	(3,589)	(3,589)
Loss from equity accounted investments	(4,366)	-	-	-	-	-	(4,366)
Profit before taxation	**1,746**	**367**	**(2,627)**	**2,058**	**(1,010)**	**770**	**1,304**
Income tax expense						3,349	3,349
Profit for six months	**1,746**	**367**	**(2,627)**	**2,058**	**(1,010)**	**4,119**	**4,653**
Segment assets	224,908	59,921	110,222	44,802	69,496	-	509,349
Unallocated assets						144,357	144,357
Total assets	**224,908**	**59,921**	**110,222**	**44,802**	**69,496**	**144,357**	**653,706**
Segment liabilities	124,882	25,065	38,722	12,006	32,171	-	232,846
Unallocated liabilities						302,404	302,404
Total liabilities	**124,882**	**25,065**	**38,722**	**12,006**	**32,171**	**302,404**	**535,250**
Capital expenditure	1,255	254	7,034	-	6,254	-	14,797
Depreciation and amortisation	1,046	805	780	-	1,642	-	4,273
Change in other provisions	(284)	(334)	746	(226)	(560)	-	(658)
Change in provisions for impairment of property, plant and equipment and intangible assets	-	-	(423)	-	(522)	-	(945)

(in thousands of US dollars except for per share amounts)

Secondary reporting format – geographical segments

Continuing operations

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

	Sales		Total assets		Capital expenditure	
	Six months ended June 30, 2004	Six months ended June 30, 2003	June 30, 2004	December 31, 2003	Six months ended June 30, 2004	Six months ended June 30, 2003
Russian Federation	102,933	78,619	603,112	650,071	4,657	9,164
Commonwealth of Independent States	10,413	2,208	73	-	-	-
Asia	57,001	47,921	-	-	-	-
Europe	5,600	4,676	5,426	-	-	-
Other regions	210	-	3,595	3,635	-	5,633
Total	**176,157**	**133,424**	**612,206**	**653,706**	**4,657**	**14,797**

Sales are based on the geographical area in which the customer is located. There are no sales between the segments. Assets and capital expenditure are based on the geographical area where the assets are located.

6. Balances and transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

During six months 2004 and 2003, the Company had transactions or balances with the following companies under significant influence by management:

Name of related party	Type of relationship
OAO Atomenergoexport (AEE)	Associate
ZAO Atomstroyexport (ASE)	Subsidiary of AEE
OOO Invest Aktiv	Subsidiary of AEE
BioLink Technologies International	Significant influence by OMZ management
Promtorgbank	Significant influence by OMZ management
OAO Industrial Group NIPEK-Bioprocess	Significant influence by OMZ management
ZAO Neftyanoi Investitsionnyi Dom	Significant influence by OMZ management
OOO NitsTyazhMash	Significant influence by OMZ management
OOO Machinery Engineering Russia	Significant influence by OMZ management
OOO Resource	Significant influence by OMZ management
Lotterby Limited	Significant influence by OMZ management

During six months 2004 OMZ share in AEE decreased to approximately 20 percent that resulted in derecognition of AEE and its subsidiaries as related parties.

(in thousands of US dollars except for per share amounts)

Accounts receivable from related parties consisted of the following:

	June 30, 2004	December 31, 2003
ZAO Atomstroyexport	-	50,318
ZAO Atomstroyexport - due from customers for contract work	-	48,570
OOO Invest Aktiv	-	11,270
Management	4,994	-
OOO Machinery Engineering Russia	358	-
OOO Resource	114	112
Promtorgbank	14	5,652
Other	-	137
	5,480	**116,059**
Classified as accounts due from customers for contract work (note 8)	-	(48,570)
	5,480	**67,489**

The Group has also sold to certain members of its management (Nikolaev S.V., Zharkov N.S, Lipsky S.V., Grabovec L.G., Aivasov M.G., Andriyashin V.P., Kosolapov M.V.) the oil and gas equipment and shipbuilding business segments. Consideration under this transaction received in accordance with contract terms. Subsequently, Lipsky S.V. sold his shares in OMZ-MNP, therefore the transactions with OMZ-MNP were not considered as related parties transactions.

Accounts receivable from related parties, long-term, consisted of the following:

	June 30, 2004	December 31, 2003
Promtorgbank	39	948
Other	-	1,753
Total due from related parties – long-term	**39**	**2,701**

Current liabilities to related parties consisted mainly of advances received from Atomstroyexport for nuclear power plant production and loans granted to the Company by Promtorgbank:

	June 30, 2004	December 31, 2003
ZAO Atomstroyexport	-	95,111
Promtorgbank	1,345	13,643
Other	28	916
	1,372	**109,670**
Classified as advances received for contract work (note 16)	-	(92,682)
	1,372	**16,988**

At June 30, 2004 the weighted average effective interest rate on RR denominated and US dollar loans from Promtorgbank totalled 15.6 percent and 11.2 percent, respectively. At December 31, 2003 the weighted average effective interest rate on RR denominated and US dollar loans from Promtorgbank totalled 15.4 percent and 11.3 percent, respectively.
The interest expense included in the consolidated income statement on loans from Promtorgbank amounted to US$313 in six months 2004 and US$288 in six months 2003.

Cash held in the Promtorgbank bank account at June 30, 2004 totalled US$1,202 (December 31, 2003: US$6,742).

The fair value of these balances approximates their carrying amounts.

Key management compensation

The remuneration paid to the directors of the Company is determined in respect of the period from one annual general meeting to the next. The most recent annual general meetings of the Company were held on 09 August in 2004 and on June 30 in 2003. On a pro rata basis, during the six months ended June 30, 2004 and 2003, the aggregate compensation to the directors included in general and administrative expenses in the consolidated income statement amounted to US$109 and US$102, respectively.

(in thousands of US dollars except for per share amounts)

7. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	June 30, 2004	December 31, 2003
RR denominated cash on hand and balances with banks	8,307	12,883
US$ denominated balances with banks	819	7,106
Other currency denominated balances with bank	245	4,072
	9,371	**24,061**

The weighted average interest rate on cash and cash equivalents at June 30, 2004 approximating nil (December 31, 2003: nil).

8. Trade and other receivables

	June 30, 2004	December 31, 2003
Trade receivables	59,796	31,257
Receivable from related parties	5,480	67,489
Accounts due from customers for contract work	81,135	77,201
Taxes receivable	62,939	85,195
Advances to suppliers	49,899	84,598
Other receivables	37,578	10,398
	296,827	**356,138**

Taxes receivable above include:

	June 30, 2004	December 31, 2003
VAT recoverable	32,994	49,345
VAT on advances from customers	20,704	21,735
Other taxes receivable	9,241	14,115
	62,939	**85,195**

VAT recoverable represents input Value Added Tax (VAT) (see note 4.5) incurred on purchases and are available for offset against future output VAT following the payment for these purchases. VAT on advances from customers is available for offset against respective VAT upon the delivery of the equipment sold.

Provision on impairment offset against accounts receivable balances is as follows:

	June 30, 2004	December 31, 2003
Trade receivables	(4,381)	(7,468)
Taxes receivable	-	(173)
Advances to suppliers	(581)	(729)
Other receivables	(581)	(1,457)
	(5,543)	**(9,827)**

9. Inventories

	June 30, 2004	December 31, 2003
Raw materials	65,346	91,921
Work in progress	65,399	88,980
Finished goods	64,895	50,052
Goods in transit	3,668	5,958
Provision for obsolete inventory	(34,155)	(42,288)
	165,153	**194,623**

(in thousands of US dollars except for per share amounts)

Certain inventories included above totalling US$45,108 (2003: US$74,059) were provided as security under loan agreements (note 17).

10. Other current financial assets

	June 30, 2004	December 31, 2003
Financial assets at fair value through profit and loss	835	4,374
Deposits with banks	-	3,879
	835	**8,253**

11. Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
Balance at December 31, 2003					
Cost	243,286	221,367	30,511	14,505	509,669
Accumulated depreciation	(103,014)	(151,431)	(19,768)	-	(274,213)
Impairment loss recognised	(1,399)	(10,079)	(1,093)	(8,961)	(21,532)
Net book value	**138,873**	**59,857**	**9,650**	**5,544**	**213,924**
Discontinued operations	(70,974)	(9,814)	(3,853)	(4,617)	(89,258)
Exchange differences	790	182	31	79	1,082
Additions	1,139	1,391	261	1,660	4,451
Disposals	(1,671)	(548)	(345)	(310)	(2,874)
Depreciation	(1,464)	(2,716)	(1,005)	-	(5,185)
Impairment release (charge)	697	(344)	(0)	989	1,342
Closing net book value	**67,390**	**48,008**	**4,739**	**3,345**	**123,482**
Balance at June 30, 2004					
Cost	159,757	197,887	23,094	8,253	388,991
Accumulated depreciation	(90,461)	(136,837)	(17,509)	-	(244,807)
Impairment loss recognised	(1,906)	(13,042)	(846)	(4,908)	(20,702)
Net book value	**67,390**	**48,008**	**4,739**	**3,345**	**123,482**

At June 30, 2004 bank borrowings are secured on properties at carrying amount totalling US$19,899 (2003: US$18,922) (Note 17).

12. Deposit on investments

Deposit on investments represents balances on escrow accounts on the acquisition of Skoda Holding companies (note 31). The deposit balance will be applied as part settlement of the purchase price on the transaction.

(in thousands of US dollars except for per share amounts)

13. Intangible assets

	Goodwill	Other	Total
Balance at December 31, 2003			
Cost	15,609	17,997	33,606
Accumulated depreciation	(200)	(636)	(836)
Impairment loss recognised	(4,633)	(13,923)	(18,556)
Net book value	**10,776**	**3,438**	**14,214**
Discontinued operations	(3,779)	(1,277)	(5,056)
Additions	-	200	200
Disposals	-	-	-
Amortisation	(211)	(202)	(413)
Exchange differences	102	42	144
Closing net book value	**6,888**	**2,201**	**9,089**
Balance at June 30, 2004			
Cost	11,932	16,962	28,894
Accumulated depreciation	(411)	(838)	(1,249)
Impairment loss recognised	(4,633)	(13,923)	(18,556)
Net book value	**6,888**	**2,201**	**9,089**

14. Non-current financial assets

	June 30, 2004	December 31, 2003
Receivable from Vneshtorgbank (“VTB”)	-	36,806
Available for-sale financial assets	6,505	3,688
Receivable from related parties (note 6)	39	2,701
Other receivables	11,661	6,656
	18,205	**49,851**

As at December 31, 2003, the Company owed Vneshtorgbank US$36.8 million in connection with an order received by the Group for a diesel submarine for the Chinese Navy through Rosoboronexport. Pursuant to an arrangement with Vneshtorgbank, Vneshtorgbank issued a guarantee to the Chinese Ministry of Defence in respect of Rosoboronexport’s performance bond, which was issued as a result of advance payments made to the Group through Rosoboronexport. Due to a statutory requirement that significant bank guarantees are collateralised, the Company provided Vneshtorgbank with promissory notes issued by Vneshtorgbank and purchased by the Group with funds advanced to the Company by Vneshtorgbank by way of an unsecured loan of US$36.8 million. Both the promissory notes and the unsecured loan denominated in US dollars, bear effective interest at a rate of 8.4 percent and mature in September 2005. Management expects that the Group will offset the promissory notes against the loan on the relevant payment dates. The VTB promissory notes presented in the balance sheet as other non-current assets and loan payable to VTB presented as other non-current liabilities (note 19).

As at June 30, 2004 other long-term receivables mainly represents a trade receivable from Atomstroyexport for nuclear power plant equipment dispatched payable in February 2006.

The weighted average interest rate on other receivables denominated in RR at June 30, 2004 amounted to 11 percent (December 31, 2003: 15.3 percent).

(in thousands of US dollars except for per share amounts)

15. Negative goodwill

Balance at December 31, 2003	**(42,496)**
Discontinued operations	18,320
Amortisation	561
Exchange differences	(625)
Balance at June 30, 2004	**(24,240)**

16. Trade and other accounts payable

	June 30, 2004	December 31, 2003
Trade payables	54,284	36,352
Payables to related party (note 6)	1,372	16,988
Advances received	145,138	63,405
Advances received for contract work	-	92,682
Accounts due to customers for contract work	-	17,779
Taxes payable	40,303	54,344
Payroll accounts payable	10,137	14,555
Other payables and accrued expenses	35,321	27,391
	286,555	**323,496**

Taxes payable above include:

	June 30, 2004	December 31, 2003
Deferred VAT	23,399	22,772
Short-term portion of long-term taxes payable (note 18)	5,314	6,255
Other taxes payable	11,590	25,317
	40,303	**54,344**

Deferred VAT relates to output Value Added Tax (VAT) in respect of goods and services delivered to customers and is payable upon collection of the respective trade receivable.

17. Borrowings

Short-term borrowings

	June 30, 2004	December 31, 2003
Banks:		
US$ denominated fixed rate	89,338	91,185
RR denominated fixed rate	62,363	49,074
US$ denominated floating rate	30,000	30,182
EURO denominated floating rate	1,228	648
Romanian lei fixed rate	-	590
	182,929	**171,679**
Other US$ denominated fixed rate		3,501
Other RR denominated fixed rate	544	2,589
	183,473	**177,769**
Add: current portion of non-convertible bonds	-	26,482
Add: current portion of long-term debt	785	1,136
	184,258	**205,387**

(in thousands of US dollars except for per share amounts)

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

	June 30, 2004	December 31, 2003
Banks:		
US$ denominated fixed rate	9.47%	10.2%
RR denominated fixed rate	10.38%	11.0%
US$ denominated floating rate	4.25 plus LIBOR	4.2 plus LIBOR
EURO denominated floating rate	5.5 plus EURIBOR	4.2 plus EURIBOR
Romanian lei fixed rate	-	23.0%

As at June 30, 2004, short-term borrowings totalling US$57,939 and US$41,307 (December 31, 2003: US$55,998 and US$30,023) included above are secured by the property and inventory of the Company, respectively. The carrying amount of pledged inventory and property, plant and equipment is disclosed in notes 9 and 11, respectively.

Long-term borrowings

	June 30, 2004	December 31, 2003
Banks:		
RR denominated fixed rate	-	10,864
US$ denominated floating rate	2,079	2,839
EURO denominated floating rate	739	380
Romanian lei fixed rate	-	183
US$ denominated fixed rate	35,000	-
	37,818	**14,266**
Non-convertible bonds	31,005	57,038
	68,823	**71,304**
Less : current portion of non-convertible bonds	-	(26,482)
Less: current portion of long-term debt	(785)	(1,136)
Total long-term borrowings	**68,038**	**43,686**

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

	June 30, 2004	December 31, 2003
Banks:		
RR denominated fixed rate	-	10.50%
US$ denominated floating rate	6.25 plus LIBOR	6.4 plus LIBOR
EURO denominated floating rate	4.2 plus EURIBOR	4.2 plus EURIBOR
Romanian lei fixed rate	-	24.0%
US$ denominated fixed rate	9.40%	-
Non-convertible bonds	13.5%	14.4%

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

At June 30, 2004 long-term loans have the following maturity profile:

	2004	2005	2006	2007 and after	Total
Banks:					
US$ denominated floating rate	416	-	1,663	-	2,079
EURO denominated floating rate	185	184	370	-	739
US$ denominated fixed rate	-	-	-	35,000	35,000
	601	**184**	**2,033**	**35,000**	**37,818**
Non-convertible bonds				31,005	31,005
	601	**184**	**2,033**	**66,005**	**68,823**

The Group is required to make an offer for early repayment of non-convertible bonds at par totalling US$31,005 in September 2005.

(in thousands of US dollars except for per share amounts)

At December 31, 2003 long-term loans have the following maturity profile:

	2004	2005	2006	2007 and after	Total
Banks:					
RR denominated fixed rate	-	10,864	-	-	10,864
US$ denominated floating rate	756	-	2,083	-	2,839
EURO denominated floating rate	380	-	-	-	380
Romanian lei fixed rate	-	-	183	-	183
	1,136	**10,864**	**2,266**	**-**	**14,266**
Non-convertible bonds	26,482	-	-	30,556	57,038
	27,618	**10,864**	**2,266**	**30,556**	**71,304**

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

As at 30 June, 2004 long-term borrowings totalling US$2,033 included above are secured with the property of the Group (31 December 2003: 1,513). The carrying amount of pledged property, plant and equipment disclosed in note 11.

Domestic non-convertible bonds

Balance at 1 January 2003	**28,599**
Issuance (par value RR 1 thousand totaling RR'mln 900)	30,556
Repayment (par value RR 1 thousand totaling RR'mln 130)	(4,389)
Amortization of discount	14
Exchange differences	2,258
Balance at December 31, 2003	**57,038**
Repayment (par value RR 1 thousand totaling RR'mln 780)	(27,359)
Effect of exchange rate changes	1,326
Balance at June 30, 2003	**31,005**

18. Long-term taxes payable

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

	June 30, 2004	December 31, 2003
Current	5,314	6,255
1 to 2 years	3,650	6,472
2 to 3 years	7,600	10,538
3 to 4 years	3,122	3,436
4 to 5 years	3,063	3,232
Thereafter	4,982	5,489
Total restructured	**27,731**	**35,422**
Less: current portion of taxes payable	(5,314)	(6,255)
Long-term portion of restructured taxes	**22,417**	**29,167**
Other long-term taxes payable	703	1,157
Total long term taxes payable	**23,120**	**30,324**

At June 30, 2004 long-term taxes payable bear an effective interest rate of 5.5 percent per annum (December 31, 2003: 5.5 percent).

(in thousands of US dollars except for per share amounts)

19. Other long-term liabilities

	June 30, 2004	December 31, 2003
Payable to VTB (note 14)	-	36,806
Other long-term liabilities	1,421	2,709
	1,421	**39,515**

20. Equity

	Number of outstanding shares (thousands)		Number of treasury shares (thousands)		Share capital	Share premium	Treasury shares
	Preference shares	Ordinary shares	Preference shares	Ordinary shares			
At January 1, 2003	**2,750**	**35,350**	**-**	**(3,975)**	**366**	**83,662**	**(38)**
Currency translation	-	-	-	-	17	3,942	(2)
Employees share option scheme:	-	-	-	-	-	-	-
- value of employees services	-	-	-	-	-	2,434	-
- proceeds from sale of treasury shares	-	-	-	401	-	327	2
At June 30, 2003	**2,750**	**35,350**	**-**	**(3,574)**	**383**	**90,365**	**(38)**
At December 31, 2003	**2,750**	**35,350**	**-**	**(3,220)**	**394**	**96,487**	**(33)**
Currency translation	-	-	-	-	7	1,420	-
Additional issue of shares	-	130	-	-	-	1,583	-
Purchase o treasury shares	-	-	(2,719)	(1,332)	-	-	(42,514)
At June 30, 2004	**2,750**	**35,480**	**(2,719)**	**(4,552)**	**401**	**99,490**	**(42,547)**

At June 30, 2004 the authorised number of ordinary and preference shares totalled 70,700 thousands and 2,750 thousands (December 31, 2003: 35,350 thousands and 2,750 thousands), respectively, both with a nominal value per share of RR 0.1.

At June 30, 2004 the issued number of ordinary and preference shares totalled 35,480 thousands and 2,750 thousands. (December 31, 2003: 35,350 thousands and 2,750 thousands),

Preference shares represent cumulative preferred stock that do not have a voting right, except for certain issues pertaining to the liquidation or reorganization of the Company or changes in the charter documents, earn dividends at 12% per annum, 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 government policy these shares represent non-voting stock.

A dividend was declared in six months 2004 in respect of 2003 to holders of preference shares of US$ 0.0004 per share (in six months 2003 in respect of 2002 – of US$ 0.0004 per share). No dividend was declared on ordinary shares during six months 2004 and 2003.

(in thousands of US dollars except for per share amounts)

21. Construction contracts

During six months 2004 the revenues and gross margin recognised on long-term-contracts amounted to:

	Six months, ended June 30, 2004
Contract revenue	47,648
Contract costs	(27,557)
Gross margin	**20,091**

The Group's financial position with respect to construction contracts is disclosed in notes 8 and 16.

22. Cost of sales

	Six months, ended June 30, 2004	Six months, ended June 30, 2003
Changes in inventories of finished goods, work in progress	(30,616)	(17,341)
Materials and components used	77,955	55,736
Labor costs	33,038	25,171
Gas and fuel	24,353	17,454
Services	12,607	9,035
Depreciation	4,281	3,890
Amortisation of negative goodwill	(561)	(566)
Other	2,023	1,450
	123,080	**94,829**

23. Selling expenses

	Six months, ended June 30, 2004	Six months, ended June 30, 2003
Transportation	1,720	1,211
Services	2,828	1,767
Labour costs	737	308
Other	521	112
	5,806	**3,398**

24. General and administrative expenses

	Six months, ended June 30, 2004	Six months, ended June 30, 2003
Taxes	3,309	4,151
Labour costs	23,813	22,344
Amortisation of intangibles	413	113
Depreciation	904	836
Services	11,158	9,624
Administration overheads	2,395	2,093
	41,992	**39,161**

(in thousands of US dollars except for per share amounts)

25. Other operating income and expenses

	Six months, ended June 30, 2004	Six months, ended June 30, 2003
Profit from sales of non-core business units	5,276	12,971
Change in provision for impairment of receivables	(546)	(825)
Change in provision for obsolete inventory	355	167
Impairment release (charge) on property plant and equipment (note 11)	1,342	(945)
Gain (loss) on disposal of property, plant and equipment	1,367	268
Other	415	1,587
	8,209	**13,223**

During six months 2004, the management of the Company disposed of OAO "ZSMK" for consideration of US$ 4,6 million. The sale resulted in the recognition of a gain of US$5 million.

During six months 2003 Company disposed of its metallurgical equipment business to Severstalmash, the machine building division of Severstal. Under the agreement Severstalmash acquired the sales and marketing organization and engineering expertise of the metallurgical equipment business as well as the right to use the corresponding trademarks for a total consideration of US$14 million. The sale resulted in the recognition of a gain of US$13 million. The disposal did not result in the transfer of any of the Company's production facilities to Severstalmash.

26. Net finance cost

	Six months ended, June 30, 2004	Six months ended, June 30, 2003
Interest expense on borrowings	(12,767)	(8,697)
Interest expense on restructured taxes payable	(365)	(312)
Interest income	940	540
Gain (loss) on financial assets through profit and loss and available-for-sale financial assets	2,395	(158)
Foreign exchange gain	1,863	5,038
	(7,934)	**(3,589)**

27. Income tax

	Six months ended June 30, 2004	Six months ended June 30, 2003
Income tax expense/(credit) – current	(1,151)	(513)
Deferred tax expense/(income) – origination and reversal of temporary differences	956	3,862
Deferred tax expense/(income) – effect of reduction in tax rate		-
Income tax (benefit) expense	**(195)**	**3,349**

(in thousands of US dollars except for per share amounts)

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

	Six months ended June 30, 2004	Six months ended June 30, 2003
Income/(loss) before taxation	**5,554**	**1,304**
Theoretical tax charge at statutory rate of 24% (2003 – 24%)	1,333	313
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax penalties and release of government financing	12	44
Non-temporary elements of monetary gain	-	-
Other non-deductible expenses	(523)	1,609
Inflation effect on deferred tax balance at beginning of the year	-	-
Effect of (reduction) increase in tax rate	-	-
Non-recognised deferred tax asset movement	(627)	(5,315)
Consolidated tax charge	**195**	**(3,349)**

Most companies in the Group were subject to tax rates of 24 percent on taxable profits for the six months of 2004 and 2003. Deferred tax asset/ liabilities are mainly measured at the rate of 24 percent as at June 30, 2004 (December 31, 2003: 24 percent).

	December 31, 2003	Disposal of subsidiaries	Exchange difference	Differences recognition and reversals	June 30, 2003
Tax effects of deductible temporary differences:					
Provision for impairment of property, plant and equipment	8,056	3,603	165	(322)	4,296
Provision for impairment of receivables	2,624	-	37	141	2,802
Provision for impairment of investments	2,648	1,789	59	125	1,043
Accounts payable and accruals	2,021	1,569	51	(14)	489
Provision for inventory	11,107	1,696	187	(89)	9,509
Accounts receivable	5,947	114	121	(2,461)	3,493
Loss carry-forward	1,964	1,964	47	(32)	15
Other	2,997	1,922	60	420	1,555
Tax effects of taxable temporary differences:					
Affect of applying IAS 29 on property, plant and equipment	(11,385)	(10,014)	(260)	77	(1,554)
Production overheads recognized for tax purposes	(14,372)	(4,507)	(261)	638	(9,488)
Accounts receivable recognized using percentage-of-completion method	(12,671)	(6,529)	(263)	1,747	(4,658)
Other	(3,785)	(918)	(67)	99	(2,835)
Net tax effect of temporary differences	**(4,849)**	**(9,311)**	**(124)**	**329**	**4,667**
Less non-recognised deferred tax asset	(6,330)	(2,642)	(123)	627	(3,184)
Total net deferred tax (liability)/assets	**(11,179)**	**(11,953)**	**(247)**	**956**	**1,483**

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, the deferred tax asset of one company of the Group is not offsetable against deferred tax liability of another company. As at June 30, 2004, a deferred tax asset in the amount of US$3,097 (December 31, 2003: US$6,330) has not been recognised as it is not probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilised.

At June 30, 2004 the Group has not recognised deferred tax liability in respect of US$18,499 (US$ 18,238 in 2003) of temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

28. Contingencies, commitments and operating risks

Capital commitments

As at June 30, 2004 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for US$ 2,103 (December 31, 2003: US$ $ 2,702).

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. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at June 30, 2004 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

Insurance policies

The Group operates policy to insure all significant property and work-in-progress and shipments in relation to significant contracts. As at June 30, 2004, most of the Group's property is insured.

Environmental matters

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

Legal proceedings

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

(in thousands of US dollars except for per share amounts)

Guarantees

As at December 31, 2003, the Group has guaranteed a US dollar denominated bank loans issued to sold non-core business-units totalling US$3,300 (December 31 2002: nil).

Additionally, at June 30, 2004, the Group has guaranteed a US dollar denominated loans issued:

Bank	**Borrower**	**Amount of guarantee**	**Expired date**
Promtorgbank	OMZ-Kran	627	March 2005
OVK	Ural International	1,700	February 2005
Total		**2,327**	

Operating environment of the Company

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

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

29. Principal subsidiaries

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

Entity	Country of Incorporation	Activity	**June 30, 2004 % of share capital**	**December 31, 2003 % of share capital**
OAO Izhorskiye Zavody ("Izhorskiye Zavody")	Russia	Production of equipment for nuclear power plants and mining equipment	80.1	80.1
OAO Ural Heavy Machine-Building Plant ("Uralmash")	Russia	Production of drilling, mining and metallurgical equipment	74.2	74.2
OOO OMZ SpecStal ("SpecStal")	Russia	Production of specialty steels	100	100
OOO OMZ Gornoe oborudovanie i tehnologii («GoiT»)	Russia	Engineering and sales of mining equipment	100	100
ZAO Komplekt Atom Izhora	Russia	Engineering and installation of nuclear power plant equipment	100	100
OOO OMZ Sibir	Russia	Sales of mining equipment	75	75
OOO OMZ	Russia	Corporate services	100	100

30. Financial risk management

Credit risk

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

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

Foreign exchange risk

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

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. However, management believes that the Group is secured from foreign exchange risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

Interest rate risk

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

31. Post balance sheet events

Acquisition of Skoda JS and Skoda Steel

In July 2004 Group acquired 100 percent share in three companies (Skoda JS and Skoda Steel (which includes Skoda Hute and Skoda Kovarny)) from ŠKODA HOLDING (a member of Appian group controlled by Appian Central European Development Investment Fund(s) Plc Limited). These companies specialise in engineering and manufacturing of equipment for nuclear power plants and the production of speciality steels.

The consideration payable on acquisition totalled 34.8 million euros. Consideration under the agreement is payable in several instalments starting June 2004 with the last payment in January 2005. The outstanding payable accrues interest at 6.5 percent per annum.

(in thousands of US dollars except for per share amounts)

If the acquisition of the Skoda companies and the disposal of MNP were executed on 1 January 2004 and based on assumption that carrying values of Skoda companies approximates its fair value the pro-forma of OMZ's interim consolidated balance sheet and income statement for the six months ended 30 June 2004 would be as follows:

	June 30, 2004		
	OMZ	**Skoda**	**Total**
ASSETS			
Current assets:	472,186	108,697	575,842
Non-current assets:	140,020	99,028	239,048
Total assets	**612,206**	**207,725**	**814,890**
LIABILITIES			
Current liabilities:	470,813	70,051	578,133
Non-current liabilities:	99,327	44,086	143,413
Total liabilities	**570,140**	**114,137**	**721,546**
EQUITY			
Equity and reserves attributable to the Company's equity holders:	19,035	93,588	70,313
Minority interest	23,031	-	23,031
Total equity	**42,066**	**93,588**	**93,344**
Total liabilities and equity	**612,206**	**207,725**	**814,890**

	Six months, ended June 30, 2004		
	OMZ	**Skoda**	**Total**
Sales	176,157	100,898	277,055
Gross profit	**53,077**	**14,510**	**67,587**
Operating profit	13,488	619	14,107
Profit (loss) before taxation	5,554	(765)	4,789
Profit from acquisition of Skoda companies	50,851	-	50,851
Profit (loss) for the year before loss from discontinued operations	56,405	(765)	55,640
Profit (loss) for the year	**5,939**	**427**	**6,366**
Attributable to:			
Equity holders of the Company	6,438	427	6,865
Minority interest	(499)	-	(499)