

OMZ (Uralmash-Izhora Group)

**International Financial Reporting Standards
Interim Consolidated Financial Statements**

The six months ended June 30, 2007



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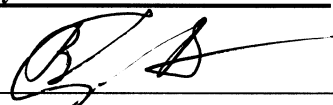
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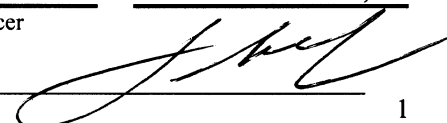
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	Note	June 30, 2007	December 31, 2006
ASSETS			
Current assets:			
Cash and cash equivalents	7	25,306	25,837
Trade and other receivables	8	237,456	217,593
Inventories	9	218,576	194,597
Other current financial assets	10	810	1,901
		482,148	439,928
Non-current assets held for sale		271,436	202,248
Total current assets		753,584	642,176
Non-current assets:			
Property, plant and equipment	11	164,495	183,956
Intangible assets	12	39,121	40,896
Deferred tax asset	26	3,519	14,245
Non-current financial assets	13	69,615	31,636
		276,750	270,733
Total non-current assets		276,750	270,733
Total assets		1,030,334	912,909
LIABILITIES			
Current liabilities:			
Trade and other payables	15	345,782	257,792
Provisions for liabilities and charges		16,337	15,437
Short-term borrowings	16	107,435	101,611
		469,554	374,840
Liabilities directly associated with non-current assets held for sale		270,871	233,729
Total current liabilities		740,425	608,569
Non-current liabilities:			
Long-term borrowings	16	89,965	57,415
Long-term taxes payable	17	-	5,828
Deferred tax liability	26	24,625	30,310
Other long-term liabilities	18	17	5,472
		114,607	99,025
Total non-current liabilities		114,607	99,025
Total liabilities		855,032	707,594
EQUITY			
Equity and reserves attributable to the Company's equity holders:			
Share capital	19	450	442
Share premium	19	101,388	109,686
Treasury shares	19	(47,839)	(46,899)
Hedging reserve	19	1,251	4,413
Currency translation reserve		6,808	14,825
Retained earnings		92,013	100,445
		154,071	182,912
Minority interest		21,231	22,403
Total equity		175,302	205,315
Total liabilities and equity		1,030,334	912,909

General Director
Chernyshev V.V.
24 October 2007



Chief Financial Officer
Gavrikov G.G.



	Note	Six months, ended June 30, 2007	Six months, ended June 30, 2006
Continuing operations:			
Sales		353,691	302,776
Cost of sales	21	(285,554)	(226,430)
Gross profit		68,137	76,346
Selling expenses	22	(13,718)	(12,773)
General and administrative expenses	23	(32,026)	(32,492)
Other operating income and expenses	24	(1,912)	(6,824)
Operating profit		20,481	24,257
Finance income/(expense)-net	25	(13,963)	1,851
Profit before taxation		6,518	26,108
Income tax benefit (expense)	26	68	(6,462)
Profit for the six months from continuing operations		6,586	19,646
<i>Discontinued operations</i>			
Loss for the year from discontinued operations		(9,294)	(3,706)
(Loss)/profit for the six months		(2,708)	15,940
Attributable to:			
Equity holders of the Company		(1,105)	16,175
Minority interest		(1,603)	(235)
		(2,708)	15,940
Earnings per share attributable to the equity holders of the Company (in US dollars)			
- basic	30	0.21	0.52
- diluted	30	0.21	0.52

	Note	Six months, ended June 30, 2007	Six months, ended June 30, 2006
Cash flows from operating activities			
Profit before taxation		6,518	26,108
Adjustments for:			
Depreciation and amortization	21,23	9,203	10,060
Change in provisions for impairment and other provisions	24	6,432	7,435
Loss from disposal of property, plant and equipment	24	(28)	(2,406)
Net finance cost adjusted for foreign exchange differences	25	7,339	8,246
Unrealised foreign exchange effect on non-operating items		(3,473)	(4,452)
Operating cash flows before working capital changes		25,991	44,991
Decrease (increase) in accounts receivable and prepayments		(11,622)	25,294
Increase in inventories		(14,927)	(8,004)
Decrease in trade and other accounts payable		(57,413)	(63,146)
Cash used in operations		(57,971)	(865)
Income taxes paid		(5,850)	(3,311)
<i>Net cash used in operating activities of continuing operations</i>		<i>(63,821)</i>	<i>(4,176)</i>
<i>Net cash used in operating activities of discontinued operations</i>		<i>(24,949)</i>	<i>(9,171)</i>
Cash used in operating activities		(88,770)	(13,347)
Cash flows from investing activities:			
Purchases of property, plant and equipment, intangibles		(17,132)	(7,264)
Proceeds from the sale of property, plant and equipment, intangibles and development costs		20,902	1,745
Net sale of financial assets		771	1,880
Net proceeds from loans issued		(637)	(425)
<i>Net cash provided from (used in) investing activities of continuing operations</i>		<i>3,904</i>	<i>(4,064)</i>
<i>Net cash provided from (used in) investing activities of discontinued operations</i>		<i>9,536</i>	<i>(2,377)</i>
Net cash provided from (used in) investing activities		13,440	(6,441)
Cash flows from financing activities:			
Proceeds from borrowings		464,010	194,856
Repayment of borrowings		(408,400)	(169,127)
Repayment of long-term taxes payable		1,806	748
Interest paid		(9,789)	(4,054)
<i>Net cash provided from financing activities of continuing operations</i>		<i>47,627</i>	<i>22,423</i>
<i>Net cash provided from financing activities of discontinued operations</i>		<i>21,607</i>	<i>11,958</i>
Net cash provided from financing activities		69,234	34,381
Effect of exchange rate changes		6,519	3,486
Net increase (decrease) in cash and cash equivalents of continuing operations		(12,290)	14,183
Net increase in cash and cash equivalents of discontinued operations		6,194	410
Net increase (decrease) in cash and cash equivalents	7	(6,096)	14,593
Cash and cash equivalents at the beginning of the period		25,837	57,468
Cash and cash equivalents at the end of the period	7	26,260	75,547
Less cash and cash equivalent at the end of the period of discontinued operations		(954)	(1,090)
Cash and cash equivalents at the end of the period of continuing operations		25,306	74,457

Note	Attributable to shareholders					Retained earnings	Minority interest	Total equity
	Share capital	Share premium	Treasury shares	Hedging reserve	Currency translation reserve			
Balance at 01 January 2006	404	100,344	(42,908)	1,301	4,957	95,314	27,774	187,186
Currency translation difference	25	6,313	(2,699)	82	(1,070)	5,996	1,747	10,394
Net income/(expense) recognised directly in equity	25	6,313	(2,699)	82	(1,070)	5,996	1,747	10,394
Profit for the six months	-	-	-	-	-	16,175	(235)	15,940
Total recognised income	25	6,313	(2,699)	82	(1,070)	22,171	1,512	26,334
Cash flow hedging, net of tax	-	-	-	207	-	-	-	207
Balance at 30 June 2006	429	106,657	(45,607)	1,590	3,887	117,485	29,286	213,727
Balance at 01 January 2007	442	109,686	(46,899)	4,413	14,825	100,445	22,403	205,315
Currency translation difference	8	(8,298)	(940)	88	(8,017)	(7,327)	431	(24,055)
Net income/(expense) recognised directly in equity	8	(8,298)	(940)	88	(8,017)	(7,327)	431	(24,055)
Profit for the six months	-	-	-	-	-	(1,105)	(1,603)	(2,708)
Total recognised income	8	(8,298)	(940)	88	(8,017)	(8,432)	(1,172)	(26,763)
Cash flow hedges, net of tax	20	-	-	(3,250)	-	-	-	(3,250)
Balance at 30 June 2007	450	101,388	(47,839)	1,251	6,808	92,013	21,231	175,302

1. The OMZ Group and its operations

OAOMZ and its subsidiaries (“OMZ” or “the Group”) operate in four business segments comprising nuclear power plant equipment, speciality steels, machinery equipment manufacturing and mining equipment. The Group’s manufacturing facilities are primarily based in Russia and the Czech Republic. The parent company, OAOMZ (“the Company”) was incorporated as an open joint stock company in Ekaterinburg, Russian Federation in 1996. OMZ’s principal subsidiaries are disclosed in note 31. These are incorporated under the Laws of the Russian Federation and the Czech Republic.

The company’s registered address is:

Ermolaevski per.,
Moscow,
Russian Federation

At 30 June 2007 the Group average number of employees was approximately 16,080 (December 31, 2006: 16,988).

2. Financial position

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.

3. Basis of presentation of the financial statements

The consolidated financial statements of OMZ Group have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention as modified by the revaluation of available-for-sale investments.

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

Adoption of new or revised standards and interpretations

In 2007, the group adopted the standards below, which are relevant to its operations.

IFRS 7 (issued 2005) Financial Instruments: Disclosures.
IAS 1 (revised 2005) Presentation of Financial Statements – Capital Disclosures.
IFRIC 8 (issued 2006) Scope of IFRS 2.
IFRIC 9 (issued 2006) Reassessment of Embedded Derivatives.
IFRIC 10 (issued 2006) Interim Financial Reporting and Impairment
IFRIC 11 (issued 2006) IFRS 2 – Group and Treasury Share Transactions

- IFRS 7 introduces new disclosures to improve the information about financial instruments. Complete information required by IFRS 7 will be disclosed by the Group in its annual consolidated financial statements. The adoption of IFRS 7 doesn’t have any impact on the classification and valuation of the Group’s consolidated financial statements.
- IAS 1, IFRIC 8, IFRIC 9, IFRIC 10, IFRIC 11 had no material effect on the Group’s policies.

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

New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group’s accounting periods beginning after 30 June 2007 or later periods and which the entity 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

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

public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the Standard will have on segment disclosures in the Group's financial statements.

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

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

- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).
- IFRIC 13, Customer Loyalty Programs (effective for annual periods beginning on or after 1 July 2008).

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

Presentation of continuing operations

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

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

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

Foreign currency translation

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

Monetary assets and liabilities held by Group entities and denominated in foreign currencies at 30 June 2006 are translated into the functional currency at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

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

- (i) assets and liabilities in each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses in each income statement presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a currency translation reserve in equity.

At 30 June 2007, the official rates of exchange, as determined by the Central Bank of the Russian Federation, were US dollar (US\$) 1=RR 25.82 (December 31, 2006 USD1=RR 26.33) and Czech Koruna (CZK) 1=RR 1.22 (December 31, 2006 CZK1=RR 1.26). 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.

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

Accounting for the effects of hyperinflation

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

Critical accounting estimates and judgments

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

(i) Long-term contracts

Estimates have been made with respect to the recognition of revenue and gross margin on construction contracts including the expected "costs to complete" on such contracts. If the actual gross margins on the Group's contracts are 10% lower than management's estimates at 30 June 2007, the Group would need to reduce the carrying value of receivables recognised using the percentage-of-completion method (notes 4.15 and 4.16) by US\$23,267 with a corresponding effect on operating profit.

(ii) Impairment

The Group tests annually whether property, plant and equipment and goodwill have suffered any impairment in accordance with the accounting policy (note 4.7). If the estimated gross margin, which impacts the assumptions of future cash flows, at 30 June 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 intangibles assets.

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

(iii) Deferred taxation

With respect to deferred taxes, management has assumed that US\$21,808 of tax losses will be utilised in the future, the effect of which is to reduce the deferred tax liability recorded at 30 June 2007 by US\$5,234. Should these tax losses not be used, the deferred tax liability would be increased by this amount with a corresponding impact on the tax charge for the year. Tax benefits expire in 2009 (US\$2,857) and 2015 (US\$2,377).

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

4. Significant accounting policies

4.1 Group accounting

Subsidiary undertakings

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

4. Significant accounting policies (continued)

4.1 Group accounting (continued)

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

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

Associated undertakings

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

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

4.2 Investments

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

Financial assets at fair value through profit and loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are classified as current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Current loans and receivables are included in trade and other receivables (note 8) and non-current loans and receivables included in non-current financial assets (note 13).

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.

4. Significant accounting policies (continued)**4.2 Investments (continued)**

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

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

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

4.3 Cash and cash equivalents

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

4.4 Trade receivables

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

4.5 Value added tax

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

4. Significant accounting policies (continued)

4.6 Inventories

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

4.7 Property, plant and equipment

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

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

	<u>Number of years</u>
Buildings	up to 50
Constructions	up to 25
Plant and machinery	up to 15
Other	up to 5

Land and assets under construction are not depreciated.

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

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

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

4.8 Intangible assets

Goodwill

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

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

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

4. Significant accounting policies (continued)

4.8 Intangible assets (continued)

Trademarks

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

Research and development

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

Other intangible assets

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

Impairment of other intangible assets

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

4.9 Non-current assets classified as held for sale

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

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

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

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

4.10 Discontinued operations.

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

4. Significant accounting policies (continued)

4.11 Borrowings

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

4.12 Deferred income taxes

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

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

4.13 Provisions

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

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

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

4.14 Equity

Share capital

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

Treasury shares

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

Dividends

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

4. Significant accounting policies (continued)

4.15 Construction contracts

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

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

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

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

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

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

4.16 Revenue recognition

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

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

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

4.17 Employee benefits

Social costs

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

Pension costs

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

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

4. Significant accounting policies (continued)

4.18 Derivative financial instruments and hedging activities

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

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

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

5. Segment information

Primary reporting format – business segments

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

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

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

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

In addition, the segment provides services for 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).

5. Segment information (continued)

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 (Izhorskie 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.

Six months ended June 30, 2007	NPPEQ	STEEL	MMEQ	MINEQ	Other	Eliminations and unallocated items	Total
Continuing operations							
Total sales	57,422	204,129	53,969	74,876	30,949	(67,654)	353,691
Less intersegment sales	(224)	(17,646)	(28,824)	(431)	(20,529)	67,654	-
External sales	57,198	186,483	25,145	74,445	10,420	-	353,691
Gross margin	7,725	36,389	7,255	14,413	4,331	(1,976)	68,137
Gross margin, %	13%	18%	13%	19%	14%		19%
Segment result	3,100	20,327	(268)	1,955	1,950	(364)	26,700
Unallocated operating income and expenses	-	-	-	-	-	(6,219)	(6,219)
Operating profit	3,100	20,327	(268)	1,955	1,950	(6,583)	20,481
Net finance expense	-	-	-	-	-	(13,963)	(13,963)
Profit before taxation	3,100	20,327	(268)	1,955	1,950	(20,546)	6,518
Income tax benefit	-	-	-	-	-	68	68
Profit for the six months	3100	20,327	(268)	1955	1,950	(20,478)	6,586
Segment assets	139,034	274,832	92,905	116,860	10,393	495	634,519
Unallocated assets	-	-	-	-	-	124,379	124,379
Non-current assets held for sale	271,436	-	-	-	-	-	271,436
Total assets	410,470	274,832	92,905	116,860	10,393	124,874	1,030,334
Segment liabilities	71,834	132,647	31,727	54,806	31,518	-	322,532
Unallocated liabilities	-	-	-	-	-	261,629	261,629
Liabilities directly associated with non-current assets held for sale	270,871	-	-	-	-	-	270,871
Total liabilities	342,705	132,647	31,727	54,806	31,518	261,629	855,032
Capital expenditure	3,012	11,739	1,766	1,745	1,112	-	19,374
Depreciation and amortisation	2,900	5,650	1,212	398	749	-	10,909
Change in other provisions	25	1,092	3,531	2,510	(104)	(72)	6,982
Change in provisions for impairment of property, plant and equipment and intangible assets	-	-	(36)	-	(514)	-	(550)

5. Segment information (continued)

Six months ended June 30, 2006	NPPEQ	STEEL	MMEQ	MINEQ	Other	Eliminations and unallocated items	Total
Continuing operations							
Total sales	49,156	174,744	46,200	64,097	26,494	(57,915)	302,776
Less intersegment sales	(192)	(15,106)	(24,674)	(369)	(17,574)	57,915	-
External sales	48,964	159,638	21,526	63,728	8,920	-	302,775
Gross margin	8,656	40,772	8,129	16,150	4,853	(2,214)	76,346
Gross margin, %	18%	23%	18%	25%	18%		25%
Segment result	3,671	24,075	(318)	2,316	2,309	(431)	31,622
Unallocated operating income and expenses	-	-	-	-	-	(7,365)	(7,365)
Operating profit	3,671	24,075	(318)	2,316	2,309	(7,796)	24,257
Net finance expense	-	--	-	-	-	1,851	1,851
Profit before taxation	3,671	24,075	(318)	2,316	2,309	(5,945)	26,108
Income tax expenses	-	--	-	-	-	(6,462)	(6,462)
Profit for the six months	3,671	24,075	(318)	2,316	2,309	(12,407)	19,646
Segment assets	295,763	232,465	96,717	102,480	25,266	(4,068)	748,623
Unallocated assets	-	-	-	-	-	121,006	121,006
Total assets	295,763	232,465	96,717	102,480	25,266	116,938	869,629
Segment liabilities	122,739	80,466	33,276	47,257	39,037	-	322,775
Unallocated liabilities	-	-	-	-	-	333,127	333,127
Total liabilities	122,739	80,466	33,276	47,257	39,037	333,127	655,902
Capital expenditure	1,707	6,653	1,001	989	630	-	10,980
Depreciation and amortisation	3,212	6,258	1,343	441	830	-	12,084
Change in other provisions	(27)	(1,192)	(3,855)	(2,740)	113	79	(7,622)
Change in provisions for impairment of property, plant and equipment and intangible assets	-	-	12	-	171	-	183

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, 2007	Six months ended June 30, 2006	June 30, 2007	December 31, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Russian Federation	176,685	136,367	570,639	558,731	12,574	7,264
Commonwealth of Independent States	20,444	21,096	2	2	-	-
Asia	53,262	49,019	-	-	-	-
Europe	98,422	91,927	459,693	354,176	6,800	3,716
Other regions	4,878	4,367	-	-	-	-
Total	353,691	302,776	1,030,334	912,909	19,374	10,980

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

6. Balances and transactions with related parties

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

The Group is significantly influenced by ZAO "Forpost-Management", which owns 44.41% of the Company share capital at 30 June 2007.

During six months 2007 and 2006 there were no transactions with related parties other than key management compensation as set out below.

Key management compensation

The remuneration paid to the directors of the Company is determined in respect of the period from one annual general meeting to the next. The most recent annual general meetings of the Company were held on 28 June 2007 and 5 June 2006. On a pro rata basis, during the six months ended 30 June 2007 and 2006, the aggregate compensation to the directors included in general and administrative expenses in the consolidated income statement amounted to US\$1,467 and US\$1,383, respectively.

7. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	June 30, 2007	December 31, 2006
RR denominated cash on hand and balances with banks	13,140	11,144
CZK denominated cash on hand and balances with banks	482	720
EURO denominated balances with banks	9,164	5,130
US\$ denominated balances with banks	1,325	7,070
Other currency denominated balances with bank	1,195	1,773
	25,306	25,837

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

8. Trade and other receivables

	June 30, 2007	December 31, 2006
Trade receivables	74,199	82,083
Accounts due from customers for contract work	637	15,763
VAT recoverable	36,432	35,180
VAT on advances from customers	25,747	20,405
Other taxes receivable	7,330	6,276
Advances to suppliers	65,448	47,759
Forward foreign exchange contracts – cash flow hedges	2,634	5,258
Other receivables	25,029	4,869
	237,456	217,593

Accounts receivable are denominated in Russian Roubles except for US\$20,343 and US\$40,202 of accounts receivable denominated in US dollars and CZK respectively at 30 June 2007 (at 31 December 2006 US\$6,658 and US\$51,241).

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

	June 30, 2007	December 31, 2006
Trade receivables	(6,014)	(7,027)
Advances to suppliers	(1,184)	(1,601)
Other receivables	(7,282)	(7,407)
	(14,480)	(16,035)

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

9. Inventories

	June 30,2007	December 31,2006
Raw materials	78,731	60,963
Work in progress	123,442	111,191
Finished goods	37,151	36,093
Goods in transit	5,316	11,922
Provision for obsolete inventory	(26,064)	(25,572)
	218,576	194,597

Certain inventories included above totalling US\$18,041 (31 December 2006: US\$17,158) were provided as security under loan agreements (note 16). At 30 June 2007 inventories totalling US\$3,532 were carried at fair value less costs to sell (31 December 2006: US\$3,463).

10. Other current financial assets

	June 30,2007	December 31,2006
Financial assets at fair value through profit and loss	37	261
Short-term derivative financial instruments	773	1,640
	810	1,901

At 30 June 2007 financial assets at fair value through profit and loss represent mainly RR denominated promissory notes with a weighted average interest rate of 1 percent (31 December 2006: 0.9 percent) which management intends to sell within 12 months from the balance sheet date.

11. Property, plant and equipment

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
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
Exchange differences	2,212	(274)	(94)	(84)	1,760
Additions	1,045	8,000	1,209	8,928	19,182
Disposals	(9,368)	(8,481)	(852)	(2,469)	(21,170)
Depreciation	(6,293)	(11,336)	(1,055)	-	(18,684)
Impairment (charge) release (note 24)	(487)	(82)	(4)	24	(549)
Closing net book value	88,052	50,276	2,354	23,813	164,495
Balance at 30 June 2007					
Cost	155,544	191,827	18,423	26,927	392,721
Accumulated depreciation	(65,332)	(117,353)	(15,473)	-	(198,158)
Impairment loss recognised	(2,160)	(24,198)	(596)	(3,114)	(30,068)
Net book value at 30 June 2007	88,052	50,276	2,354	23,813	164,495

11. Property, plant and equipment (continued)

Comparative information for 6 months 2006:

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
Balance at 31 December 2005					
Cost	165,548	218,980	18,771	9,661	412,960
Accumulated depreciation	(62,422)	(130,724)	(15,352)	-	(208,498)
Impairment loss recognised	(2,087)	(20,853)	(769)	(3,381)	(27,090)
Net book value at 31 December 2005	101,039	67,403	2,650	6,280	177,372
Exchange differences	7,038	4,925	194	486	12,643
Additions	675	6,333	1,218	2,564	10,790
Disposals	(503)	(1,184)	33	13	(1,641)
Depreciation	(2,461)	(7,250)	(1,035)	-	(10,746)
Impairment (charge) release (note 24)	(2)	17	-	168	183
Closing net book value	105,786	70,244	3,060	9,511	188,601
Balance at 30 June 2006					
Cost	176,593	237,654	21,408	13,115	448,770
Accumulated depreciation	(68,306)	(145,752)	(17,677)	-	(231,735)
Impairment loss recognised	(2,501)	(21,658)	(671)	(3,604)	(28,434)
Net book value at 30 June 2006	105,786	70,244	3,060	9,511	188,601

At 30 June 2007 bank borrowings are secured on properties with a carrying value of US\$41,042 (31 December 2006: US\$25,641) (Note 16).

At 30 June 2007 and 31 December 2006 the gross carrying value of fully depreciated property, plant and equipment was US\$68,629 and US\$64,828 respectively.

At 31 December 2006 management assessed the recoverable amount of property, plant and equipment and the adequacy of impairment losses and recognised in prior periods. Discount rates of 11.1 percent and 13.06 percent for US dollar denominated and Russian Rouble denominated cash flows, respectively, have been used in estimating the recoverable value through discounted cash flows at 31 December 2006.

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

12. Intangible assets

	Goodwill	Trade mark	Internally developed intangible assets	Total
Balance at 31 December 2006				
Cost	7,651	23,409	23,573	54,633
Accumulated amortisation	-	(1,678)	(6,408)	(8,086)
Impairment loss recognised	(5,651)	-	-	(5,651)
Net book value at 31 December 2006	2,000	21,731	17,165	40,896
Additions	-	-	80	80
Disposals	-	-	(10)	(10)
Amortisation	-	(329)	(968)	(1,297)
Exchange differences	39	(356)	(231)	(548)
Closing net book value	2,039	21,046	16,036	39,121
Balance at 30 June 2007				
Cost	7,618	23,026	23,445	54,089
Accumulated amortisation	-	(1,980)	(7,409)	(9,389)
Impairment loss recognised	(5,579)	-	-	(5,668)
Net book value at 30 June 2007	2,039	21,046	16,036	39,121

12. Intangible assets (continued)

Comparative information for 6 months 2006:

	Goodwill	Trade mark	Internally developed intangible assets	Total
Balance at 31 December 2005				
Cost	7,122	14,266	25,409	46,797
Accumulated amortisation	-	(392)	(4,010)	(4,402)
Impairment loss recognised	(5,213)	-	-	(5,213)
Net book value at 31 December 2005	1,909	13,874	21,399	37,182
Additions	-	-	190	190
Disposals	-	-	(4)	(4)
Amortisation	-	(173)	(1,165)	(1,338)
Exchange differences	120	1,532	1,401	3,053
Closing net book value	2,029	15,233	21,821	39,083
Balance at 30 June 2006				
Cost	7,570	15,817	27,612	50,999
Accumulated amortisation	-	(584)	(5,791)	(6,375)
Impairment loss recognised	(5,541)	-	-	(5,541)
Net book value at 30 June 2006	2,029	15,233	21,821	39,083

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

Internally developed intangible assets mostly consist of patented and non-patented technologies (net book value at 30 June 2007 is US\$11,867 and US\$12,599 at 31 December 2006) and research and development costs (net book value at 30 June 2007 is US\$2,733 and US\$2,969 at 31 December 2006).

At 31 December 2006 management assessed the recoverable amount of intangible assets and the adequacy of impairment losses recognised in prior periods. In 2005 an impairment charge totalling US\$1,414 was made in relation to goodwill which arose in acquiring OMZ-Kran and VNIPTMASH. The recoverable amount was determined based on value-in-use calculations. The calculations use cash flow projections based on financial budgets approved by management.

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

13. Non-current financial assets

	June 30, 2007	December 31, 2006
Available-for-sale investments	10,324	2,225
Advances issued	38,161	20,897
Forward foreign exchange contracts – cash flow hedges	-	1,429
Accounts due from customers for contract work	-	-
Long-term bank deposits	4,969	6,243
Other receivables	16,161	842
	69,615	31,636

As at 30 June 2007 and 31 December 2006 long-term advances issued represent mainly advances paid by ŠKODA JS a.s. for long-term contracts.

An amount of US\$4,969 deposited in bank accounts is assigned specifically to guarantee contractual agreements with customers and will be released gradually as the individual projects are completed (31 December 2006: US\$6,243).

14. Non-current assets held for sale

At 30 June 2007 and 31 December 2006 OAO Izhorskiye Zavody and ZAO Komplekt Atom Izhora are presented as non-current assets held for sale.

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

	June 30,2007	December 31,2006
Cash and cash equivalents	954	1,335
Trade and other receivables	186,849	125,824
Inventories	33,926	23,911
Property, plant and equipment	40,782	38,805
Intangible assets	256	288
Deferred tax asset	6,875	5,497
Non-current financial assets	1,794	6,588
Total non-current assets classified as held for sale	271,436	202,248

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

	June 30,2007	December 31,2006
Trade and other payables	139,575	129,739
Short-term borrowings	74,935	59,038
Long-term borrowings	48,221	38,673
Long-term taxes payable	3,125	3,184
Deferred tax liability	1,062	2,975
Other long-term liabilities	3,953	120
Total liabilities directly associated with non-current assets classified as held for sale	270,871	233,729

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

15. Trade and other accounts payable

	June 30,2007	December 31,2006
Trade payables	113,675	94,170
Advances received	111,468	86,654
Advances received for contract work	-	-
Accounts due to customers for contract work	42,921	30,877
Deferred VAT	2,868	3,848
Short-term portion of long-term taxes payable (note 17)	-	-
Other taxes payable	11,046	10,355
Payroll accounts payable	11,522	14,002
Other payables and accrued expenses	52,282	17,886
	345,782	257,792

At 30 June 2007 accounts payable were primarily denominated in Russian Roubles except for US\$9,899 and US\$40,228 of accounts payable denominated in US dollars and Czech Koruna respectively (at 31 December 2006 US\$21,364 and US\$72,642 denominated in US dollars and Czech Koruna respectively).

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

16. Borrowings

Short-term borrowings

	June 30,2007	December 31,2006
Banks:		
US\$ denominated fixed rate	30,085	42,220
EURO denominated fixed rate	65,688	47,556
RR denominated fixed rate	11,662	11,835
	107,435	101,611
Add: current portion of long-term debt	-	-
Non-convertible bonds	-	-
	107,435	101,611

16. Borrowings (continued)

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

	June 30,2007	December 31,2006
Banks:		
US\$ denominated fixed rate	8.71%	9.38%
EURO denominated fixed rate	7.08%	7.11%
RR denominated fixed rate	9.11%	9.79%

As at 30 June 2006, short-term borrowings totalling US\$20,142 and US\$11,811 (31 December 2005: 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 9 and 11, respectively.

Long-term borrowings

	June 30,2007	December 31,2006
Non-convertible bonds	89,965	57,415
	89,965	57,415
Less: current portion of long-term debt	-	-
Total long-term borrowings	89,965	57,415

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

	June 30,2007	December 31,2006
Non-convertible bonds	10.84%	8.80%

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

At 30 June 2007 long-term loans had the following maturity profile:

	2007	2008	2009	2010 and after	Total
Non-convertible bonds	-	-	36,487	53,478	89,965
	-	-	36,487	53,478	89,965

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

	2007	2008	2009	2010 and after	Total
Non-convertible bonds	-	-	57,415	-	57,415
	-	-	57,415	-	57,415

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

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

	June 30,2007		December 31,2006	
	Carrying amounts	Fair values	Carrying amounts	Fair values
Banks			-	-
Non-convertible bonds	89,965	94,810	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).

As at 30 June 2007 and 31 December 2006 no long-term borrowings are pledged.

At 30 June 2007 the Group had unused borrowing facilities of US\$99,703 (31 December 2006: US\$88,319).

16. Borrowings (continued)**Domestic non-convertible bonds**

Balance at 31 December 2005	31,480
Amortization of discount	(35)
Effect of exchange rate changes	1,980
Balance at 30 June 2006	33,425
Balance at 31 December 2006	57,415
Issuance (par value RR 1 thousand totalling RR'mln 879)	33,748
Amortization of discount	(4,580)
Effect of exchange rate changes	3,382
Balance at 30 June 2007	89,965

17. 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.

	June 30,2007	December 31,2006
Current	-	-
1 to 2 years	-	5,828
2 to 3 years	-	-
3 to 4 years	-	-
4 to 5 years	-	-
Total restructured	-	5,828
Less: current portion of taxes payable (note 15)	-	-
Total long term taxes payable	-	5,828

At 31 December 2006 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 2006 totalled 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.

18. Other long-term liabilities

	June 30,2007	December 31,2006
Trade payables, long-term	-	5,338
Other long-term liabilities	17	134
	17	5,472

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

19. 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	-	-	-	-	1	24	(1,538)	(1,161)
At 30 June 2006	2,750	35,480	(2,720)	(4,551)	30	399	(25,988)	(19,619)
At 31 December 2006	2,750	35,480	(2,720)	(4,551)	32	410	(26,723)	(20,176)
Currency translation	-	-	-	-	-	8	(538)	(402)
At 30 June 2007	2,750	35,480	(2,720)	(4,551)	32	418	(27,261)	(20,578)

At 30 June 2007 the authorised 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.

19. Equity (continued)

At 30 June 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 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 30 June 2007 a hedging reserve recorded within equity represented the effective portion of changes in the fair value of derivatives in the amount of US\$1,251 (31 December 2006 US\$4,413).

During six months 2007 the weighted average market price of the Company's shares was US\$9.23 (During six months 2006: US\$8.85)

20. Construction contracts

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

	Continuing operations	
	Six months, ended June 30, 2007	Six months, ended June 30, 2006
Contract revenue	40,322	44,429
Contract costs	(31,742)	(34,858)
Gross margin	8,580	9,571

The Group's financial position with respect to construction contracts is disclosed in notes 8 and 15.

Construction contracts in progress:

	Continuing operations	
	June 30, 2007	December 31, 2006
Contract costs incurred and recognised profits (less losses) to date	236,154	231,537
Advances received on construction contracts	93,945	92,108

21. Cost of sales

	Continuing operations	
	Six months, ended June 30, 2007	Six months, ended June 30, 2006
Changes in inventories of finished goods and work in progress	(12,809)	(12,287)
Materials and components used	154,410	121,630
Labour costs	58,017	43,860
Gas and fuel	29,823	30,031
Services, including sub-contracting costs	40,825	32,191
Depreciation	9,532	7,881
Amortisation of intangible assets	1,185	624
Other	4,571	2,501
	285,554	226,430

22. Selling expenses

	Continuing operations	
	Six months, ended June 30, 2007	Six months, ended June 30, 2006
Transportation	5,925	4,998
Services	2,838	3,142
Labour costs	4,161	3,925
Other	794	708
	13,718	12,773

23. General and administrative expenses

	Continuing operations	
	Six months, ended June 30, 2007	Six months, ended June 30, 2006
Taxes	2,487	1,368
Labour costs	19,576	20,268
Amortisation of intangibles	308	490
Depreciation	564	101
Services	7,018	7,595
Administration overheads	2,073	2,670
	32,026	32,492

24. Other operating income and expenses

	Continuing operations	
	Six months, ended June 30, 2007	Six months, ended June 30, 2006
Change in provision for impairment of receivables (note 8)	1,301	(2,412)
Change in provision for obsolete inventory (note 9)	(1,026)	(5,229)
Impairment release (charge) on property, plant and equipment (note 11)	151	206
Gain (loss) on disposal of property, plant and equipment	2,232	2,396
Other	(4,570)	(1,785)
	(1,912)	(6,824)

25. Finance income/(expense) -net

	Continuing operations	
	Six months, ended June 30, 2007	Six months, ended June 30, 2006
Interest expense on borrowings	(9,852)	(8,776)
Interest expense on restructured taxes payable	-	-
Interest income	2,955	529
Loss on financial assets through profit and loss	(1,355)	(14)
Foreign exchange gain (loss)	(5,711)	10,112
	(13,963)	1,851

26. Income tax

	Six months, ended June 30, 2007	Six months, ended June 30, 2006
Income tax expense/(credit) – current	4,329	(1,952)
Deferred tax expense/(income) – origination and reversal of temporary differences	(4,261)	(4,510)
Income tax (benefit) expense	68	(6,462)

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

	Six months, ended June 30, 2007	Six months, ended June 30, 2006
Profit before taxation	6,518	26,108
Theoretical tax charge at statutory rate of 24%	1,564	6,266
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses (income)	(1,047)	33
Non-recognised deferred tax asset movement	(585)	163
Income tax (benefit) expense	(68)	6,462

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 30 June 2007 (31 December 2006: 24 percent).

26. Income tax (continued)

	31 December 2006	Exchange difference	Differences recognition and reversals	30 June 2007
Tax effects of deductible temporary differences:				
Provision for impairment of property, plant and equipment	9,505	94	(2,920)	6,679
Provision for impairment of investments	408	4	(385)	27
Accounts payable and accruals	2,919	59	115	3,093
Provision for inventory	6,609	105	(111)	6,603
Accounts receivable	4,816	25	(4,805)	36
Loss carry-forward	6,318	99	(1,183)	5,234
Other	949	16	(274)	691
Tax effects of taxable temporary differences:				
Hyperinflation and fair value adjustments on property, plant and equipment	(16,062)	(479)	2,448	(14,093)
Production overheads recognized for tax purposes	(6,298)	(173)	817	(5,654)
Accounts receivable recognized using percentage-of-completion method	(4,967)	(126)	815	(4,278)
Provision for impairment of receivables	(4,413)	(47)	4,177	(283)
Provision for repairs	(5,507)	(63)	4,697	(873)
Other	(1,018)	(102)	(8,237)	(9,357)
Net tax effect of temporary differences	(6,741)	(588)	(4,846)	(12,175)
Less non-recognised deferred tax asset	(9,324)	(192)	585	(8,931)
Total net deferred tax (liability)/assets	(16,065)	(780)	(4,261)	(21,106)

Comparative information for 6 months 2006:

	31 December 2005	Exchange difference	Differences recognition and reversals	30 June 2006
Tax effects of deductible temporary differences:				
Provision for impairment of property, plant and equipment	9,406	644	1,148	11,198
Provision for impairment of investments	885	57	27	969
Accounts payable and accruals	3,691	107	(2,750)	1,048
Provision for inventory	7,021	506	1,411	8,938
Accounts receivable	6,986	460	451	7,897
Loss carry-forward	3,649	230	2	3,881
Other	985	36	(570)	451
Tax effects of taxable temporary differences:				
Hyperinflation and fair value adjustments on property, plant and equipment	(16,964)	(1,005)	1,365	(16,604)
Production overheads recognized for tax purposes	(10,440)	(631)	561	(10,510)
Accounts receivable recognized using percentage-of-completion method	(7,747)	(467)	457	(7,757)
Provision for impairment of receivables	(2,471)	(121)	759	(1,833)
Other	(2,177)	(260)	(2,793)	(5,230)
Net tax effect of temporary differences	(7,176)	(444)	68	(7,552)
Less non-recognised deferred tax asset	(6,898)	(449)	(163)	(7,510)
Total net deferred tax (liability)/assets	(14,074)	(893)	(95)	(15,062)

26. Income tax (continued)

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, the deferred tax asset of one company of the Group is not offsetable against deferred tax liability of another company. As at 30 June 2007, a deferred tax asset in the amount of US\$8,931 (30 June 2006: US\$7,510) 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 30 June 2007 the Group has not recognised a deferred tax liability in respect of US\$21,423 (US\$20,674 in 2006) 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.

27. Discontinued operations

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

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

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

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

	Six months, ended June 30, 2007	Six months, ended June 30, 2006
Revenue	72,858	71,858
Expenses	(81,256)	(79,754)
Profit/(loss) before tax of discontinued operations	(8,398)	(7,896)
Income tax (expense)/benefit	(896)	4,190
Profit/(loss) for the year from discontinued operations	(9,294)	(3,706)

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

	Six months, ended June 30, 2007	Six months, ended June 30, 2006
Operating cash flows	(24,949)	(9,171)
Investing cash flows	9,536	(2,377)
Financing cash flows	21,607	11,958
Effect of exchange rate changes	1,943	1,354
Total cash flows	8,137	1,764

28. Provisions for liabilities and charges

	Provision for loss- making contracts	Provision for warranties	Provision for unused vacations	Provision for legal claims	Provision for spoilage	Other provisions	TOTAL
At 31 December 2006	1,219	4,666	5,790	200	2,747	815	15,437
Charge for year	(80)	734	1,962	-	-	85	2,701
Used during the year	(39)	(839)	(966)	(23)	-	(58)	(1,925)
Reversal of provision	-	24	-	-	-	-	24
Exchange differences	37	(198)	35	3	203	20	100
At 30 June 2007	1,137	4,387	6,821	180	2,950	862	16,337

	Provision for loss- making contracts	Provision for warranties	Provision for unused vacations	Provision for legal claims	Provision for spoilage	Other provisions	TOTAL
At 31 December 2005	2,011	4,388	3,884	1,154	445	1,048	12,930
Charge for year	582	936	4,681	62	-	436	6,697
Used during the year	(1,283)	(711)	(1,153)	(256)	(54)	(38)	(3,495)
Reversal of provision	-	-	-	-	-	104	104
Exchange differences	15	99	12	11	5	9	151
At 30 June 2006	1,325	4,712	7,424	971	396	1,559	16,387

Provision for loss-making contracts

Provisions for expected losses on loss-making contracts are recognized when the expected revenues are lower than the expected costs to completion. It is expected that US\$1,131 will be used during 2007.

Provision for warranties

The Group gives warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of US\$4,387 (2006: US\$4,712) has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns. It is expected that US\$2,572 will be used during 2007, and US\$1,815 during 2008.

Provision for unused vacations

Provision for unused vacations is recognized based on an individual analysis of the unused vacation per individual employees. The amount of US\$3,327 is expected to be used during 2007, US\$3,494 is expected to be used during 2008-2009.

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 30 June 2007 of US\$180 is expected to be utilised during 2007. In the opinion of the directors, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 30 June 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\$2950 will be used during 2007.

All of these provisions are included in the balance sheet within other payables and accrued expenses (note 15).

29. Contingencies, commitments and operating risks

Capital commitments

As at 30 June 2007 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for US\$8,031 (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 preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 30 June 2007 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

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

Insurance policies

The Group insures all significant property and work-in-progress and shipments in relation to significant contracts. As at 30 June 2007, most of the Group's property is insured.

Environmental matters

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

Legal proceedings

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

Guarantees

The Group has guaranteed US dollar denominated loans issued, the total amount of guarantees is US\$112 (in 2006 – US\$115)

The Group has guarantees provided in favour of the Group in amount of US\$14,752 (in 2005 - US\$14,932).

The Group borrowings and fulfilment of contract obligations were secured by third party guarantees in amount of US\$26,843 (in 2006 - US\$25,671)

29. Contingencies, commitments and operating risks (continued)**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.

30. 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 19).

Earnings per share from continuing operations are calculated as follows:

Basic earnings per share

	Six months, ended June 30, 2007	Six months, ended June 30, 2006
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)	<u>30,929</u>	<u>30,929</u>
Profit for the year attributable to the Company's equity holders	6,587	16,175
Basic earnings per share	0.21	0.52

Diluted earnings per share

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

	Six months, ended June 30, 2007	Six months, ended June 30, 2006
Weighted average number of ordinary shares in issue (thousands)	30,929	30,929
Weighted average number of dilutive preferred shares (thousands)	-	-
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>30,929</u>	<u>30,929</u>
Profit for the year attributable to the Company's equity holders	6,587	16,175
Diluted earnings per share	0.21	0.52

31. 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 30,2007 % of share capital	December 31,2006 % of share capital
OAo Izhorskiye Zavody ("Izhorskiye Zavody")	Russia	Production of equipment for nuclear power plants and mining equipment	80.1	80.1
OAo Ural Heavy Machine-Building Plant ("Uralmash")	Russia	Production of drilling, mining and metallurgical equipment	74.2	74.2
OOO OMZ SpecStal ("SpecStal")	Russia	Production of specialty steels	100	100
OOO OMZ Gornoe oborudovanie i tehnologii («GoiT»)	Russia	Engineering and sales of mining equipment	100	100
ZAO Komplekt Atom Izhora	Russia	Engineering and installation of nuclear power plant equipment	100	100
OOO OMZ Sibir	Russia	Sales of mining equipment	100	100
OOO OMZ	Russia	Corporate services	100	100
ŠKODA JS a.s.	Czech Republic	Production of equipment for nuclear power plants	100	100
ŠKODA Kovarny	Czech Republic	Production of specialty steels	100	100
OOO OMZ-Kran	Russia	Engineering and sales of handling equipment	100	100
OOO Kartex	Russia	Production of mining equipment	100	100
OOO IZ-ZMK	Russia	Production of steel construction	100	100
OOO UralmashSpecstal	Russia	Production of specialty steels	100	100

During 6 months 2007 ŠKODA Hute became a part of ŠKODA Kovarny.

32. Financial risk management

Credit risk

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

Foreign exchange risk

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

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

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long-term borrowings are fixed, these are disclosed in note 16. The Group has no significant interest-bearing assets.

33. 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.

34. Post balance sheet events

On July 6, 2007 OMZ with Metalloinvest registered a joint venture – Machine-Building Corporation URALMASH (URALMASH). The owners run the company as equal partners.

On September 28, 2007 OMZ transferred in joint venture URALMASH share 74,18% of UZTM (assessed value is \$125 million), including 100% of UralmashSpecialSteel, OMZ-DRO, OMZ-Kran.

On October 2, 2007 Metalloinvest transferred in joint venture URALMASH share of 99,99% ORMETO-YUMZ (assessed value is \$100 million) and equivalent \$25 million transferred by cash.