OMZ

International Financial Reporting Standards
Condensed consolidated interim Financial Statements

The six months ended 30 June 2008

Contents

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

	Note	June 30, 2008	December 31, 2007
ASSETS			
Current assets:			
Cash and cash equivalents	5	69,408	57,300
Trade and other receivables	6	689,045	387,746
Inventories	7	289,828	242,538
Other current financial assets	8	13,216	5,509
Total current assets		**1,061,497**	**693,093**
Non-current assets:			
Property, plant and equipment	9	290,660	264,172
Intangible assets		49,803	49,246
Deferred tax asset		12,877	13,504
Non-current financial assets	10	138,452	230,409
Total non-current assets		**491,792**	**557,331**
Total assets		**1,553,289**	**1,250,424**
LIABILITIES			
Current liabilities:			
Trade and other payables	11	529,443	421,117
Provisions for liabilities and charges	11	11,826	6,677
Short-term borrowings		225,040	164,651
Total current liabilities		**766,309**	**592,445**
Non-current liabilities:			
Long-term borrowings		277,353	256,348
Long-term taxes payable	12	3,129	3,111
Deferred tax liability		34,969	28,824
Other long-term liabilities		56,802	13,364
Total non-current liabilities		**372,253**	**301,647**
Total liabilities		**1,138,562**	**894,092**
EQUITY			
Equity and reserves attributable to the Company's equity holders:			
Share capital		496	474
Share premium		123,519	117,661
Treasury shares		(52,646)	(50,311)
Hedging reserve		8,165	6,580
Currency translation reserve		29,749	24,823
Retained earnings (deficit)		284,041	236,758
		393,323	**335,985**
Minority interest		21,404	20,347
Total equity		**414,727**	**356,332**
Total liabilities and equity		**1,553,289**	**1,250,424**

General Director

Danilenko V.G.

4 March 2009

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

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

	Note	Six months, ended June 30, 2008	Six months, ended June 30, 2007
Continuing operations:			
Sales		589,622	353,691
Cost of sales	13	(459,331)	(285,554)
Gross profit		**130,291**	**68,137**
Selling expenses	14	(16,901)	(13,718)
General and administrative expenses	15	(51,699)	(32,026)
Other operating income and expenses	16	(594)	(1,912)
Operating profit		**61,097**	**20,481**
Finance income/(expense)-net	17	(1,429)	(13,963)
Loss from JV		(6,907)	
Profit before taxation		**52,761**	**6,518**
Income tax benefit (expenses)		(17,098)	68
Profit from continuing operations		**35,663**	**6,586**
Discontinued operations:			
Loss from discontinued operations		-	(9,294)
(Loss)/profit for the period		**35,663**	**(2,708)**
Attributable to:			
Equity holders of the Company		35,553	(1,105)
Minority interest		110	(1,603)
		35,663	**(2,708)**
Earnings per share attributable to the equity holders of the Company (in US dollars)			
- basic		1.15	(0.04)
- diluted		1.15	(0.04)

OMZ
Condensed Consolidated Interim
Cash Flow Statement (unaudited) for the six months, ended 30 June 2008
(in thousands of US Dollars except for per share amounts)

	Six months, ended June 30, 2008	Six months, ended June 30, 2007
Cash flows from operating activities		
Net cash provided from (used in) operating activities of continuing operations	94,957	(63,821)
Net cash provided from (used in) operating activities of discontinued operations	-	(24,949)
Net cash provided (used in) operating activities	**94,957**	**(88,770)**
Cash flows from investing activities:		
Net cash provided from (used in) investing activities of continuing operations	(129,743)	3,904
Net cash provided from (used in) investing activities of discontinued operations	-	9,536
Net cash used in investing activities	**(129,743)**	**13,440**
Cash flows from financing activities:		
Net cash (used in) provided from financing activities of continuing operations	43,279	47,627
Net cash (used in) provided from financing activities of discontinued operations	-	21,607
Net cash (used in) provided from financing activities	**43,279**	**69,234**
Effect of exchange rate changes	3,615	6,519
Net increase (decrease) in cash and cash equivalents of continuing operations	8,493	(12,290)
Net increase (decrease) in cash and cash equivalents of discontinued operations	-	6,194
Net increase (decrease) in cash and cash equivalents	**8,493**	**(6,096)**
Cash and cash equivalents at the beginning of the period	57,300	25,837
Cash and cash equivalents at the end of the period	**69,408**	**26,260**
Less cash and cash equivalents at the end of the period of discontinued operations	-	(954)
Cash and cash equivalents at the end of the period of continuing operations	**69,408**	**25,306**

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

	Attributable to shareholders							
	Share capital	**Share premium**	**Treasury shares**	**Hedging reserve**	**Currency translation reserve**	**Retained earnings**	**Minority interest**	**Total equity**
Balance at 01 January 2007	**442**	**109,686**	**(46,899)**	**4,413**	**14,825**	**100,445**	**22,403**	**205,315**
Currency translation	8	(8,298)	(940)	88	(8,017)	(7,327)	1,481	29,745
Net income/(expense) recognised directly in equity	8	(8,298)	(940)	88	(8,017)	(7,327)	431	(24,055)
Profit for the period	-	-	-	-	-	(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	-	-	-	(3,250)	-	-	-	(3,250)
Balance at 30 June 2007	**450**	**101,388**	**(47,839)**	**1,251**	**6,808**	**92,013**	**21,231**	**175,302**
Balance at 01 January 2008	**474**	**117,661**	**(50,311)**	**6,580**	**24,823**	**236,758**	**20,347**	**356,332**
Currency translation	22	5,858	(2,335)	1,585	4,926	11,730	947	22,732
Net income/(expense) recognised directly in equity	22	5,858	(2,335)	1,585	4,926	11,730	947	22,732
Profit for the period	-	-	-	-	-	35,553	110	35,663
Total recognised income	22	5,858	(2,335)	1,585	4,926	47,283	1,057	58,395
Balance at 30 June 2008	**496**	**123,519**	**(52,646)**	**8,165**	**29,749**	**284,041**	**21,404**	**414,727**

1. The OMZ Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the 6 months ended 30 June 2008 for OMZ (the "Company") and its subsidiaries (together referred to as the "Group" or "OMZ").

The parent company, OMZ ("the Company") was incorporated as an open joint stock company in Ekaterinburg, Russian Federation in 1996 and was set up in accordance with Russian regulations. OMZ and its subsidiaries are incorporated under the Laws of the Russian Federation and the Czech Republic.

Principal activity. The Group operates in four business segments comprising nuclear power plant equipment, specialty steels, machinery equipment manufacturing and mining equipment. The Group's manufacturing facilities are primarily based in the Russian Federation and the Czech Republic.

Registered address and place of business

The company's registered address is:

Timur Frunze, 24
Moscow
Russian Federation

Operating Environment of the Group

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

Russian Federation

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

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

Recent volatility in global and Russian financial markets

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

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

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

2. Summary of Significant Accounting Policies

Basis of preparation. These condensed consolidated interim financial statements have been prepared in accordance with requirements set forth by International Accounting Standard 34 "Interim financial reporting" ("IAS 34"). They should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2007 prepared in accordance with International Financial Reporting Standards. These 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 principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

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

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

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. For most of the Group's entities the functional currency is the Russian Rouble, except for those entities operating in the Czech Republic for which the functional currency is the Czech Koruna.

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

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

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

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

(iii)all resulting exchange differences are recognised as a separate component of equity.

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

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

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

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

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

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

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

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

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Estimated impairment. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

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

4. 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 Stock Company «IZHORSKIYE ZAVODY» (Russia) and ŠKODA JS a.s. (Czech Republic) and produces three major types of equipment for the nuclear power industry:

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

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.

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 the manufacture of equipment for oil refineries and other activities (Stock Company «IZHORSKIYE ZAVODY»).

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

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

Six months ended 30 June 2008	NPPEQ	STEEL	MMEQ	MINEQ	Other	Eliminations and unallocated items	Total
Total sales	155,821	354,025	62,187	113,524	5,498	(101,433)	589,622
Less intersegment sales	(824)	(63,167)	(20,990)	(14,263)	(3,095)	102,337	(2)
External sales	154,997	290,858	41,197	99,261	2,403	904	589,624
Gross margin	20,230	84,429	7,494	14,725	(1,032)	4,445	130,291
Gross margin, %	**13%**	**24%**	**12%**	**13%**	**-19%**	**-4%**	**22%**
Segment result	6,461	62,129	(769)	965	(11,751)	2,120	59,155
Unallocated operating income and expenses	-	-	-	-	-	1,943	1,943
Operating profit	**6,461**	**62,129**	**(769)**	**965**	**(11,751)**	**4,063**	**61,097**
Net finance cost	-	-	-	-	-	(1,429)	(1,429)
Loss from Joint Venture	-	-	-	-	-	(6,907)	(6,907)
Profit before taxation	**6,461**	**62,129**	**(769)**	**965**	**(11,751)**	**(4,274)**	**52,761**
Income tax expense	-	-	-	-	-	(17,098)	(17,098)
Profit for the period	**6,461**	**62,129**	**(769)**	**965**	**(11,751)**	**(21,372)**	**35,663**
Segment assets	444,336	471,856	206,825	114,420	236,873	(2,147)	1,472,164
Unallocated assets						81,125	81,125
Total assets	**444,336**	**471,856**	**206,825**	**114,420**	**236,873**	**78,978**	**1,553,289**
Segment liabilities	(250,123)	(192,013)	(164,238)	(64,637)	(255,152)	526	(925,637)
Unallocated liabilities	-	-	-	-	-	(212,925)	(212,925)
Total liabilities	**(250,123)**	**(192,013)**	**(164,238)**	**(64,637)**	**(255,152)**	**(212,399)**	**(1,138,562)**
Capital expenditure	2,850	6,611	321	10,508	2,824	-	23,114
Depreciation and amortisation	2,077	6,434	767	1,784	5,265	-	16,328
Change in other provisions	885	(4,645)	47	(264)	(148)	46	(4,079)

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

Six months ended 30 June 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	3 100	20 327	(268)	1 955	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	3,081	6,002	1,288	423	796	-	11,589
Change in other provisions	1	43	139	99	(4)	(3)	275
Change in provisions for impairment of property, plant and equipment and intangible assets	-	-	10	0	141	-	151

The accompanying notes are an integral part of these financial statements

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

Secondary reporting format – geographical segments

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

	Sales		Total assets		Capital expenditure	
	Six months ended June 30, 2008	**Six months ended June 30, 2007**	**June 30, 2008**	**December 31, 2007**	**Six months ended June 30, 2008**	**Six months ended June 30, 2007**
Russian Federation	279,060	176,685	860,272	692,534	13,683	12,574
Commonwealth of Independent States	23,133	20,444	3	2	-	-
Asia	39,117	53,262	-	-	9,431	-
Europe	232,497	98,422	693,014	557,888	-	6,800
Other regions	15,815	4,878	-	-	-	-
Total	**589,622**	**353,691**	**1,553,289**	**1,250,424**	**23,114**	**19,374**

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.

5. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	June 30, 2008	**December 31, 2007**
RR denominated cash on hand and balances with banks	33,078	33,660
CZK denominated cash on hand and balances with banks	46	19,643
EURO denominated balances with banks	25,403	122
US$ denominated balances with banks	10,881	5
Cash equivalents	-	3,870
	69,408	**57,300**

6. Trade and other Receivables

	June 30, 2008	**December 31, 2007**
Trade receivables	176,386	146,066
Accounts due from customers for contract work	148,636	31,004
VAT recoverable	31,490	34,377
VAT on advances from customers	51,750	46,254
Other taxes receivable	29,698	14,913
Advances to suppliers	96,747	82,885
Loans receivable within 1 year	110,693	9,725
Forward foreign exchange contracts – cash flow hedges	8,971	8,573
Other receivables	34,674	13,950
	689,045	**387,747**

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

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

	June 30, 2008	December 31, 2007
Trade receivables	(14.588)	(7.167)
Advances to suppliers	(3.811)	(2.598)
Other receivables	(25.886)	(28.871)
	(44,285)	**(38,636)**

7. Inventories

	June 30,2008	December 31,2007
Raw materials	109.467	103.815
Work in progress	145.882	123.753
Finished goods	41.691	20.359
Goods in transit	5.736	10.019
Provision for obsolete inventory	(12.948)	(15.408)
	289,828	**242,538**

8. Other Current Financial Assets

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

	June 30,2008	December 31,2007
Financial assets at fair value through profit and loss	5.276	5.509
Short-term derivative financial instruments	7.940	-
	13,216	**5,509**

9. Property, Plant and Equipment

During the six months ended 30 June 2008 the Group acquired items of property, plant and equipment with the total cost of USD 101,108 thousands.
Assets with a carrying amount of USD 41,765 thousands were disposed of during the six months ended 30 June 2008. The resulted gain on the disposal amounted to USD 1,767, which is included in the net other operating income.

10. Other Non-Current Assets

	June 30,2008	December 31,2007
Available-for-sale investments	323	4,460
Joint ventures	92.587	95,218
Advances issued	-	11,246
Forward foreign exchange contracts – cash flow hedges	579	554
Accounts due from customers for contract work	30.796	-
Long-term bank deposits	3.005	2,872
Other receivables	11.161	116.059
	138,452	**230,409**

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

11. Trade and other Accounts Payable

	June 30, 2008	December 31,2007
Trade payables	162.214	120.923
Advances received	252.014	212.651
Accounts due to customers for contract work	65	62
Deferred VAT	11.216	6.981
Short-term portion of long-term taxes payable	254	286
Other taxes payable	19.047	13.204
Payroll accounts payable	20.070	20.053
Provisions for liabilities and charges	11.826	11.152
Other payables and accrued expenses	64.563	42.482
	541,269	**427,794**

At 31 December 2007 accounts payable were primarily denominated in Russian Roubles except for US$ 20,622 and US$ 66,066 of accounts payable denominated in US dollars and Czech Koruna respectively.

12. 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, 2008	December 31, 2007
Current	-	-
1 to 2 years	3,129	3,111
Total restructured	**3,129**	**3,111**
	3,129	**3,111**

13. Cost of Sales

	Six months, ended June 30, 2008	Six months, ended June 30, 2007
Changes in inventories of finished goods and work in progress	(44,553)	(12,809)
Materials and components used	259,295	154,410
Labour costs	82,249	58,017
Gas and fuel	40,369	29,823
Services, including sub-contracting costs	95.434	40.825
Depreciation	12,952	9.532
Amortisation of intangible assets	-	1.185
Other	13.585	4.571
	459,331	**285,554**

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

14. Selling Expenses

	Six months, ended June 30, 2008	Six months, ended June 30, 2007
Transportation	7,461	5,925
Services	3,525	2,838
Labour costs	4,498	4,161
Other	1,417	794
	16,901	**13,718**

15. General and Administrative Expenses

	Six months, ended June 30, 2008	Six months, ended June 30, 2007
Taxes	2,156	2,487
Labour costs	32,954	19,576
Amortisation of intangibles	416	308
Depreciation	2,960	564
Services	11,308	7,018
Administration overheads	1,905	2,073
	51,699	**32,026**

16. Net Other Operating Income

	Six months, ended June 30, 2008	Six months, ended June 30, 2007
Change in provision for impairment of receivables	(1,665)	1,301
Change in provision for obsolete inventory	(2,421)	(1,026)
Impairment release (charge) on property, plant and equipment	551	151
Gain (loss) on disposal of property, plant and equipment	1,767	2,232
Other	1,174	(4,570)
	(594)	**(1,912)**

17. Net Finance Cost

	Six months, ended June 30, 2008	Six months, ended June 30, 2007
Interest expense on borrowings	(10,832)	(9,852)
Interest income	(825)	2,955
Loss on financial assets through profit and loss	(641)	(1,355)
Foreign exchange gain	10,869	(5,711)
	(1,429)	**(13,963)**

18. Post Balance Sheet Events

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

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

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

Disposals

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

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

In December 2008 the Group settled contracts for the sale of 19.89% of shares in its subsidiary Stock Company «IZHORSKIYE ZAVODY» with the buy-back obligation for the total consideration of approx. USS 7,866 (RR 221.3 million). In accordance with these contracts the obligation for the buy-back should be settled in 1 year for the total consideration of approx. USS 8,570 (RR 241 million).

Acquisitions

In September 2008 the Group acquired 20.83% interest in OAO Mashinostroitelny zavod "ZIO-Podolsk" from the Group's shareholder ZAO Forpost-management for total consideration of approx. USS 70,588 (RR 1,704 million).

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

In December 2008 the Group acquired 15% interest in Closed Joint Stock Company "Chemical Engineering Group" for total consideration of approx. USS 31,990 (RR 900.2 million).

Bonds

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

Other

During the period from December 2008 to February 2009 Gazprombank (Open Joint-Stock Company) as a result of a number of deals, including acquirement of majority interest in ZAO "Forpost-management", obtained a control of more than 50 % of the Group's voting shares