OMZ

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditors' Report

The year ended 31 December 2008

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INDEPENDENT AUDITORS' REPORT

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Independent Auditors' Report

To the Board of Directors of Open Joint Stock Company OMZ

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Open Joint Stock Company OMZ (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as described in the Basis for Qualified Opinion paragraphs, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

ZAO KPMG, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for Qualified Opinion

Management was unable to obtain sufficient information to determine the fair value on initial recognition of available-for-sale investments acquired from related parties in September and December 2008 for USD 90,342 thousand and was also unable to obtain sufficient information to determine whether these same available-for-sale investments, which are stated at cost, are impaired as at 31 December 2008 as required by IAS 39 *Financial Instruments: Recognition and Measurement*. We were unable to satisfy ourselves as to the carrying amount of available-for-sale investments by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to available-for-sale investments, taxation, net profit and retained earnings as at and for the year ended 31 December 2008.

The Company has not disclosed the name of its ultimate controlling party, if any, in the corresponding information. It was impracticable to satisfy ourselves as to whether there was an ultimate controlling party and therefore whether such disclosure was required in the corresponding information. Because of this matter, we were unable to determine whether the disclosure of related party transactions for the years ended 31 December 2008 and 2007 and outstanding balances as at 31 December 2007, which are required to be disclosed by International Financial Reporting Standard IAS 24 *Related Party Disclosures,* are complete.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the first paragraph of the Basis for Qualified Opinion, and except for the omission, if any, of the information that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the second paragraph of the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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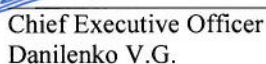
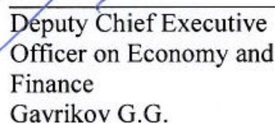
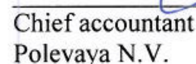
ZAO KPMG
29 April 2009

	Note	31 December 2008	31 December 2007
ASSETS			
Current assets:			
Cash and cash equivalents	9	36 498	57 300
Trade and other receivables	10	378 028	383 449
Income tax receivable		5 208	4 297
Inventories	11	253 929	242 538
Other current financial assets	12	45 393	5 509
Total current assets		**719 056**	**693 093**
Non-current assets:			
Property, plant and equipment	13	256 899	264 172
Intangible assets	14	46 530	49 246
Deferred tax assets	28	10 135	13 504
Investments accounted for using the equity method	33	40 996	95 218
Other non-current financial assets	15	195 090	116 647
Other non-current assets	16	6 276	18 544
Total non-current assets		**555 926**	**557 331**
Total assets		**1 274 982**	**1 250 424**
LIABILITIES			
Current liabilities:			
Trade and other payables	17	415 257	417 741
Provisions for liabilities and charges	29	6 005	6 677
Short-term borrowings	18	357 620	164 651
Income tax payable		9 070	3 376
Total current liabilities		**787 952**	**592 445**
Non-current liabilities:			
Long-term borrowings	18	152 598	256 348
Long-term taxes payable	19	2 727	3 111
Deferred tax liabilities	28	24 196	28 824
Other long-term liabilities	20	9 093	13 364
Total non-current liabilities		**188 614**	**301 647**
Total liabilities		**976 566**	**894 092**
EQUITY			
Equity and reserves attributable to the Company's equity holders:			
Share capital	21	396	474
Share premium		98 301	117 661
Treasury shares	21	(42 033)	(50 311)
Hedging reserve		(13 690)	6 580
Currency translation reserve		7 854	24 823
Retained earnings		225 641	236 758
		276 469	**335 985**
Minority interest		21 947	20 347
Total equity		**298 416**	**356 332**
Total liabilities and equity		**1 274 982**	**1 250 424**

Chief Executive Officer
Danilenko V.G.

Deputy Chief Executive
Officer on Economy and
Finance
Gavrikov G.G.

Chief accountant
Polevaya N.V.

The accompanying notes on pages 5 to 48 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2008	Year ended 31 December 2007
Sales		1 174 621	960 156
Cost of sales	23	(922 445)	(764 466)
Gross profit		**252 176**	**195 690**
Selling expenses	24	(36 341)	(38 758)
General and administrative expenses	25	(97 171)	(100 189)
Other operating income	26	8 937	145 790
Other operating expense	26	(20 173)	(42 565)
Operating profit		**107 428**	**159 968**
Finance income	27	25 182	16 001
Finance expense	27	(64 656)	(37 494)
Loss from joint venture	33	(45 574)	(8 013)
Profit before taxation		**22 380**	**130 462**
Income tax expense	28	(31 897)	(10 146)
(Loss)/profit for the year		**(9 517)**	**120 316**
Attributable to:			
Equity holders of the Company		(11 117)	123 853
Minority interest		1 600	(3 537)
(Loss)/profit for the year		**(9 517)**	**120 316**
Earnings per share attributable to the equity holders of the Company (in US dollars)			
- basic	31	(0,3594)	4,004
- diluted	31	(0,3594)	4,004

The accompanying notes on pages 5 to 48 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2008	Year ended 31 December 2007
Cash flows from operating activities			
Profit before taxation		22 380	130 462
Adjustments for:			
Depreciation and amortization		40 368	24 086
Change in provisions for impairment and other provisions		28 868	22 626
Net gain on disposal of subsidiaries	26, 33	(801)	(138 469)
Gain on forgiveness of debt	26	-	(5 999)
Impairment release on property, plant and equipment	26	-	(408)
(Gain)/Loss on disposal of property, plant and equipment	26	(559)	488
Loss from joint venture	33	45 574	8 013
(Gain)/Loss on (de)recognition of financial liability	26	(986)	12 609
Net finance cost adjusted for foreign exchange differences		31 884	26 756
Net foreign exchange loss/(gain)	27	7 276	(5 263)
Gain on disposal of investments	26	(837)	-
Operating cash flows before working capital changes		**173 167**	**74 901**
Increase in accounts receivable and prepayments		(55 928)	(124 454)
Increase in inventories		(69 109)	(69 791)
Increase in trade and other accounts payable		55 165	145 160
Cash provided from operations		**103 295**	**25 816**
Income taxes paid		(20 192)	(12 836)
Net cash provided from operating activities		**83 103**	**12 980**
Cash flows from investing activities:			
Proceeds from the sale of subsidiaries, net of cash disposed	33	35 474	(2 621)
Purchase of property, plant and equipment and intangibles		(100 904)	(63 071)
Proceeds from the sale of property, plant and equipment and intangibles		2 118	6 654
Net purchases of financial assets		(211 816)	(409)
Acquisition of subsidiaries, net of cash acquired	33	-	(13 567)
Proceeds from the disposal of financial assets		69 673	-
Interest received		27 067	9 664
Net proceeds from loans issued		7 378	5 249
Net cash used in investing activities		**(171 010)**	**(58 101)**
Cash flows from financing activities:			
Proceeds from borrowings		690 681	623 821
Repayment of borrowings		(566 849)	(524 248)
Interest paid		(54 207)	(36 293)
Net cash provided from financing activities		**69 625**	**63 280**
Effect of exchange rate changes on cash and cash equivalents		(2 520)	4 867
Net (decrease)/increase in cash and cash equivalents		**(20 802)**	**23 026**
Cash and cash equivalents at the beginning of the year	9	**57 300**	**34 274**
Cash and cash equivalents of continuing operations at the beginning of the year		57 300	32 939
Cash and cash equivalent reclassified from held for sale		-	1 335
Cash and cash equivalents at the end of the year	9	**36 498**	**57 300**

The accompanying notes on pages 5 to 48 are an integral part of these consolidated financial statements.

		Attributable to shareholders							
	Note	**Share capital**	**Share premium**	**Treasury shares**	**Hedging reserve**	**Currency translation reserve**	**Retained earnings**	**Minority interest**	**Total equity**
Balance as at 1 January 2007		**442**	**109 686**	**(46 899)**	**4 413**	**14 825**	**100 445**	**22 403**	**205 315**
Currency translation difference		32	7 975	(3 412)	1 212	9 998	12 460	1 481	29 746
Cash flow hedges, net of tax		-	-	-	955	-	-	-	955
Net income/(expense) recognised directly in equity		**32**	**7 975**	**(3 412)**	**2 167**	**9 998**	**12 460**	**1 481**	**30 701**
Profit/(loss) for the year		-	-	-	-	-	123 853	(3 537)	120 316
Total recognised income/ (expense)		**32**	**7 975**	**(3 412)**	**2 167**	**9 998**	**136 313**	**(2 056)**	**151 017**
Balance as at 31 December 2007		**474**	**117 661**	**(50 311)**	**6 580**	**24 823**	**236 758**	**20 347**	**356 332**
Balance as at 1 January 2008		**474**	**117 661**	**(50 311)**	**6 580**	**24 823**	**236 758**	**20 347**	**356 332**
Currency translation difference		(78)	(19 360)	8 278	1 994	(16 969)	-	-	(26 135)
Cash flow hedges, net of tax		-	-	-	(22 264)	-	-	-	(22 264)
Net income/(expense) recognised directly in equity		**(78)**	**(19 360)**	**8 278**	**(20 270)**	**(16 969)**	**-**	**-**	**(48 399)**
Profit/(loss) for the year		-	-	-	-	-	(11 117)	1 600	(9 517)
Total recognised income/ (expense)		**(78)**	**(19 360)**	**8 278**	**(20 270)**	**(16 969)**	**(11 117)**	**1 600**	**(57 916)**
Balance as at 31 December 2008		**396**	**98 301**	**(42 033)**	**(13 690)**	**7 854**	**225 641**	**21 947**	**298 416**

The accompanying notes on pages 5 to 48 are an integral part of these consolidated financial statements.

1. The OMZ Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for OJSC OMZ (the "Company") and its subsidiaries (together referred to as the "Group" or "OMZ").

The parent company, OJSC OMZ ("the Company") was incorporated as an open joint stock company in Ekaterinburg, Russian Federation in 1996 and was established in accordance with Russian regulations. OMZ's principal subsidiaries are disclosed in Note 32. These are incorporated under the Laws of the Russian Federation and the Czech Republic. For details of changes in the Group structure during 2008 refer to Note 33.

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

Registered address and place of business. The Company's registered address is:

Timura Frunze Street, 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 has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

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 entities currently operating in the Russian Federation. The future economic situation in 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.

2. Basis of Preparation

Basis of measurement. These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") using the historical cost basis except for financial investments classified as available-for-sale which are stated at fair value and the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

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

Presentation currency. These consolidated financial statements are presented in US Dollars ("US$") as management believes this is more convenient for users. All financial information has been rounded to the nearest thousand unless otherwise stated.

The Group companies maintain their accounting records in the respective national currencies and prepare their statutory financial statements in accordance with local regulations of accounting of the country in which the particular subsidiary is resident. These consolidated 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. Transactions in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into each entity's functional currency at exchange rates at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recorded as part of the fair value gain or loss.

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

(i) assets and liabilities are translated US$ at the exchange rate at the reporting date;

(ii) income and expenses for each income statement are translated into US $ 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 directly in the foreign currency translation reserve in 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.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to be part of the net investment in foreign operation and are recognised directly in equity.

As at 31 December 2008 the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 29,3804 (2007: US$ 1 = RR 24,5462) and CZK 1=RR 1,57 (31 December 2007 CZK 1 = RR 1,35). The RR is not freely convertible in most countries outside of the Russian Federation.

3. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of the consolidated financial statements are summarised below. These accounting policies have been consistently applied.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

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

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

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

Investments in jointly controlled entities. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. The Group recognises its interest in a jointly controlled entity using the equity method. The consolidated financial statements include the Group's share of the income and expenses of jointly controlled entities, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds its interest in a jointly controlled entity, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the jointly controlled entity.

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

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

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

3. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

3. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Other financial assets at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading investments. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group’s key management personnel. Recognition and measurement of this category of financial assets is consistent with the accounting policy for trading investments.

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

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

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

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

3. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Property, plant and equipment. Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

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

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

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

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

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

Land and assets under construction are not depreciated.

3. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with 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.

3. Summary of Significant Accounting Policies (Continued)

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

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

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

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the consolidated income statement. The primary factors that the Group considers whether a receivable is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

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

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

3. Summary of Significant Accounting Policies (Continued)

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

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

Held for sale property, plant and equipment or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised.

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

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

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

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

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

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

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

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

3. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Financial guarantees. Financial guarantees are contracts that requires the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

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

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

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

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

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

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

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

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

Sales are shown net of VAT and discounts.

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

3. Summary of Significant Accounting Policies (Continued)

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

Pension costs. In the normal course of business the Group contributes to the Russian Federation and Czech Republic state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension schemes are expensed when incurred.

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

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

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Earnings per share. The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

4. 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. 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.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.

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

With respect to deferred taxes, management has assumed that US$ 28 417 of tax losses will be utilised in the future (as at 31 December 2007: US$ 38 970), the effect of which is to reduce the deferred tax liability recorded as at 31 December 2008 by US$ 6 820 (2007: US$ 9 283). Should these tax losses not be utilised, the deferred tax liability would be increased by this amount with a corresponding impact on the tax charge for the year. Tax benefits expire in 2015-2018.

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

Long-term contracts. Estimates have been made with respect to the recognition of revenue and gross margin on construction contracts including the expected "costs to complete", the probability of recovering retentions withheld by customers and variations/claims that have not yet been contractually agreed. If the actual gross margins on the Group's contracts are 10% lower than management's estimates as at 31 December 2008, the Group would need to reduce the carrying value of receivables recognised using the percentage-of-completion method by US$ 13 371 (2007: US$ 19 929) with a corresponding effect on operating profit.

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

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

5. Adoption of New or Revised Standards and Interpretations

No new IFRSs became effective for the Group from 1 January 2008.

6. New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group is currently assessing what impact the standard will have on segment disclosures in the consolidated financial statements.

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

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its financial statements.

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

6. New Accounting Pronouncements (Continued)

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

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

Amendment to IFRS 2 Share-based Paymen*t – *Vesting conditions and cancellations clarify the definition of vesting conditions, introduce the concept of non-vesting conditions, require non-vesting conditions to be reflected in grant-date fair value and provide the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group does not expect the amendment to affect its consolidated financial statements.

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

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

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

6. New Accounting Pronouncements (Continued)

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

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

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

- IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008).
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008).

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

7. Segment Information

Primary reporting format – business segments

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

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

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

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

7. Segment Information (Continued)

Primary reporting format – business segments (Continued)

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 at OMZ-Specstal LLC (Russia) and PILSEN STEEL s.r.o. (Czech Republic).

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 2008 the main production sites of the machinery equipment manufacturing segment is OJSC Izhorskiye Zavody (Russia).

Mining equipment segment (MINEQ) specializes in engineering and marketing of three major types of mining equipment: excavators (electric mining excavators and walking draglines), crushing equipment, and rock-drilling machines.

Other business (other). This comprises a manufacture of equipment for oil refineries and other activities of OJSC Izhorskiye Zavody and other activities.

Sales or other transactions between the business segments are based on commercial terms that are available to third parties. Unallocated items represent corporate income and expenses, as well as gain 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 and intangible assets, as well as the cost of business acquisitions. Changes in provisions for impairment and other provisions relate only to those charges made against allocated assets.

Year ended 31 December 2008	NPPEQ	STEEL	MMEQ	MINEQ	Other	Eliminations and unallocated items	Total
Total sales	318 325	662 483	152 650	193 498	35 029	(187 364)	1 174 621
Less intersegment sales	(102)	(125 752)	(41 663)	(925)	(25 312)	193 754	-
External sales	318 223	536 731	110 987	192 573	9 717	6 390	1 174 621
Gross margin	49 548	147 519	9 832	37 430	5 803	2 044	252 176
Gross margin, %	**16%**	**22%**	**6%**	**19%**	**17%**	**(1%)**	**21%**
Segment result	9 728	103 290	(2 131)	14 508	(2 678)	-	122 717
Unallocated operating income and expenses	-	-	-	-	-	(15 289)	(15 289)
Operating profit/(loss)	**9 728**	**103 290**	**(2 131)**	**14 508**	**(2 678)**	**(15 289)**	**107 428**
Finance costs, net	-	-	-	-	-	(39 474)	(39 474)
Loss from joint venture	-	-	-	-	-	(45 574)	(45 574)
Profit/(loss) before taxation	**9 728**	**103 290**	**(2 131)**	**14 508**	**(2 678)**	**(100 337)**	**22 380**
Income tax expense	-	-	-	-	-	(31 897)	(31 897)
Profit/(loss) for the year	**9 728**	**103 290**	**(2 131)**	**14 508**	**(2 678)**	**(132 234)**	**(9 517)**
Segment assets	290 242	411 078	92 776	108 970	25 738	-	928 804
Unallocated assets	-	-	-	-	-	346 178	346 178
Total assets	**290 242**	**411 078**	**92 776**	**108 970**	**25 740**	**346 178**	**1 274 982**
Segment liabilities	(163 000)	(151 070)	(67 763)	(27 066)	(8 080)	-	(416 979)
Unallocated liabilities	-	-	-	-	-	(559 587)	(559 587)
Total liabilities	**(163 000)**	**(151 070)**	**(67 763)**	**(27 066)**	**(8 080)**	**(559 587)**	**(976 566)**
Capital expenditure	3 527	84 873	963	13 682	426	110	103 581
Depreciation and amortisation	2 582	32 061	1 266	3 388	500	571	40 368
Change in provisions	(5 496)	(19 110)	(1 447)	(2 122)	471	(1 164)	(28 868)

7. Segment information (Continued)

Primary reporting format – business segments (Continued)

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

Secondary reporting format – geographical segments

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

	Sales		Total assets		Capital expenditure	
	Year ended 31 December 2008	Year ended 31 December 2007	31 December 2008	31 December 2007	Year ended 31 December 2008	Year ended 31 December 2007
Russian Federation	586 659	447 345	561 302	696 566	68 087	36 648
Commonwealth of Independent States	7 666	57 441	-	-	-	-
Asia	74 865	92 295	-	-	-	-
Europe	492 782	349 511	713 680	553 858	35 494	24 487
North America	-	13 087	-	-	-	-
Other regions	12 649	477	-	-	-	-
Total	**1 174 621**	**960 156**	**1 274 982**	**1 250 424**	**103 581**	**61 135**

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

8. Balances and Transactions with Related Parties

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

The Company's parent company is CJSC "Forpost-Management".

The party with ultimate control over the Company and the ultimate parent company is the Non-State Pension Fund "Gazfond". No publicly available financial statements are produced by the Company's parent company or ultimate controlling party. An intermediate parent company, OJSC "Gazprombank" prepares consolidated financial statements that are publicly available.

As at 31 December 2008 CJSC "Forpost-Management" owns 44,41% of the Company's total outstanding common shares. CJSC "Forpost-Management" is able to exercise control over the Company's operating and financial policies so as to obtain the benefits from its activities by virtue of the fact that, adjusted for ordinary shares held in treasury stock held by the Group, they control in excess of 50% of the voting rights of the outstanding common shares.

In December 2008 OJSC "Gazprombank" obtained control of more than 50% of the Group's voting shares as a result of the number of transactions including the acquisition of CJSC "Forpost-Management". The settlement of these transactions was fully completed in February 2009.

During the year ended 31 December 2008 the Group acquired a 20,83% interest in OJSC "Mashinostroitelny zavod ZIO-Podolsk" and a 10,698% interest in CJSC "Atomstroyexport" from the Group's shareholder, CJSC "Forpost-Management". In addition the Group acquired a 15% interest in CJSC "Chemical Engineering Group" from an entity under common control. The consideration paid was US$ 57 998, US$ 32 344 and US$ 30 633 respectively. The Group recognised these available-for-sale investments at cost (Note 15).

During the year ended 31 December 2008, the Group also sold its wholly owned subsidiaries, "Progress LLC", CHETENG CZ, s.r.o and TECHENG CZ s.r.o for total cash consideration of US$ 37 991 to entities under common control (Note 33).

During the year ended 31 December 2007 there were no transactions with CJSC "Forpost-Management".

In September 2007 the Company and Dalmers Service Limited created a joint venture (Note 33). The nature of significant transactions with the joint venture and significant balances outstanding as at 31 December 2008 and 2007 are detailed below and in Note 33.

The outstanding balances with the related parties were as follows:

	31 December 2008		31 December 2007	
	Joint venture	Other related parties	Joint venture	Other related parties
Gross amount of trade receivables	877	86	11 482	-
Other receivables	44	1 953	11 659	-
Impairment provisions for trade and other receivables as at the reporting date	-	-	(906)	-
Advances issued	208	2 711	5 051	-
Other assets	-	-	116	-
Loans issued	5 930	17 957	6 149	-
Trade and other payables	(273)	(903)	(577)	-
Advances received	(85)	(620)	(116)	-
Loans and borrowings	-	(134 071)	-	-
Promissory notes issued	-	-	(15 000)	-

All outstanding balances with related parties, except for loans and borrowings, are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

Loans and borrowings received from related parties present loans from OJSC "Gazprombank". The majority of these loans are denominated in RR.

The Group's other related party transactions are disclosed below:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Joint venture	Other related parties	Joint venture	Other related parties
Sales of goods	620	1 695	4 553	-
Purchases of raw materials and consumables	(2 348)	(1 907)	372	-
Gain on disposal of subsidiary	-	1 697	-	-
Share in loss of the joint venture	(31 933)	-	(8 013)	-
Impairment of investment in the joint venture	(13 641)	-	-	-

8. Balances and Transactions with Related Parties (Continued)

Key management compensation

The remuneration paid to the directors of the Group and members of the Board of Directors of the Group is determined in respect of the period from one annual general meeting to the next. During the year ended 31 December 2008 and 2007, the aggregate compensation to the directors included in general and administrative expenses in the consolidated income statement amounted to US$ 7 440 and US$ 5 677 respectively. These figures include termination benefits in the amount of US$ 1 558 and US$ 1 895 for the years 2008 and 2007 respectively. All other benefits accrued to key management are short term employee benefits.

Guarantees

As at 31 December 2008, the Group has outstanding guarantees on loans of US$ 46 015 (2007: US$ 0) issued to the joint venture and an entity under common control. Guarantee fees are determined on a case-by-case basis and are charged annually (Note 30). In addition, the Group has pledged 19.89% of the shares in its subsidiary OJSC Izhorskiye Zavody to secure a related party loan received for US$ 7 866 (Note 18).

Pricing policies

Related party transactions for loans and borrowings, sales and purchases of goods and services are based on market prices. Other related party transactions including guarantees issued and acquisition and disposal of investments are based on prices determined with input from an intermediate parent company.

9. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	31 December 2008	31 December 2007
RR denominated cash on hand and balances with banks	15 632	21 400
CZK denominated cash on hand and balances with banks	3 157	13 878
EURO denominated balances with banks	8 902	15 039
US$ denominated balances with banks	2 250	161
Other currency denominated balances with bank	291	279
Cash equivalents	6 266	6 543
Total Cash and Cash Equivalents	**36 498**	**57 300**

The effective annual interest rate of bank balances payable on demand is 0,1% (31 December 2007: 0,1%).

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

	31 December 2008		31 December 2007	
	Bank balances payable on demand	Short-Term Promissory Notes and Bank Deposits	Bank balances payable on demand	Short-Term Promissory Notes and Bank Deposits
Russian Banks				
- AAA (rus) rated	807	-	3 993	-
- AA- (rus) to AA+ (rus) rated	9 688	-	57	-
- A- (rus) to A+ (rus) rated	-	-	-	-
- Lower than A- (rus) rated	13	-	6 816	-
- Unrated	6 569	6 263	10 116	6 543
International Banks				
- AAA rated	8 697	-	-	-
- AA- to AA+ rated	-	-	17	-
- A- to A+ rated	8	-	4 472	-
- Lower than A- rated	-	-	1 288	-
- Unrated	4 453	-	23 998	-
Total	**30 235**	**6 263**	**50 757**	**6 543**

Bank balances payable on demand in the amount of US$ 6 010 (31 December 2007: 7 247) and short-term promissory notes in the amount of US$ 6 263 (31 December 2007: 6 543), held in Russian banks that are unrated by Fitch as at 31 December 2008, have international rating by Fitch of AA- to A+ and Lower than A- respectively.

Bank balances payable on demand held in international banks in the amount of US$ 4 453 (31 December 2007: US$ 23 127) that are unrated by Fitch as of 31 December 2008 are rated by Standard & Poors at A+/ Stable/ A-1.

10. Trade and Other Receivables

	31 December 2008	31 December 2007
Trade receivables	106 087	131 846
Accounts due from customers for construction work	87 043	45 224
Forward foreign exchange contracts – cash flow hedges	117	8 573
VAT recoverable	39 514	34 377
VAT on advances from customers	48 072	46 254
Other taxes receivable	4 511	10 616
Advances to suppliers	80 402	82 901
Other receivables	12 282	23 658
Total trade and other receivables	**378 028**	**383 449**

Accounts receivable are denominated in RR except for US$ 22 518 denominated in US$, US$ 56 168 denominated in CZK, US$ 105 384 denominated in EUR and US$ 1 478 denominated in other currencies as at 31 December 2008 (31 December 2007: US$ 41 959 denominated in US$ and US$ 66 877 denominated in CZK).

As at 31 December 2008 accounts receivable and advances of US$ 40 988 (31 December 2007: US$ 38 636) were individually impaired. The individually impaired receivables mainly relate to customers overdue for more than 6 months, which management does not expect to be collectible. In addition, other receivables from the customer with a recent history of default were provided in full.

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

	31 December 2008	31 December 2007
Trade receivables	(20 128)	(7 167)
Advances to suppliers	(2 139)	(2 598)
Other receivables	(18 721)	(28 871)
	(40 988)	**(38 636)**

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

				2008
	Trade receivables	**Advanced to suppliers**	**Other receivables**	**Total**
As at 1 January 2008	**(7 167)**	**(2 598)**	**(28 871)**	**(38 636)**
Provision charged	(16 684)	(203)	6 342	(10 545)
Provision used	128	308	41	476
Exchange differences	3 595	355	3 767	7 717
As at 31 December 2008	**(20 128)**	**(2 139)**	**(18 721)**	**(40 988)**

Comparative information for 2007:

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

As at 31 December 2008, trade receivables of US$ 22 305 (31 December 2007: US$ 16 203) were past due but not impaired. These relate to a number of unrelated customers with no recent history of default. The ageing of these trade receivables is as follows:

	31 December 2008	31 December 2007
Less than 6 months	22 305	7 101
From 6 to 12 months	-	8 126
More than 12 months	-	976
Total trade receivable past due not impaired	**22 305**	**16 203**

11. Inventories

	31 December 2008	31 December 2007
Raw materials	115 822	103 815
Work in progress	125 214	123 753
Finished goods	31 393	20 359
Goods in transit	3 011	10 019
Provision for obsolete inventory	(21 511)	(15 408)
Total Inventories	**253 929**	**242 538**

Certain inventories included above totalling US$ 33 397 (31 December 2007: US$ 13 656) were provided as security under loan agreements (Note 18).

As at 31 December 2008 and 2007 there were no inventories carried at fair value less costs to sell.

12. Other Current Financial Assets

	31 December 2008	31 December 2007
Derivatives	119	737
Short-term loans issued	25 202	-
Promissory notes	4 644	7 249
Provision for promissory notes	(4 644)	(4 988)
Restricted cash	20 072	-
Other	-	2 511
Total Other Current Assets	**45 393**	**5 509**

Restricted cash of US$ 20 072 as at 31 December 2008 represents CZK-denominated cash advances received from customers that have been placed in a bank deposit and whose use is restricted to payments to specific suppliers as stipulated in the contracts with customers.

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

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

	Provision for promissory notes
As at 1 January 2007	**(32)**
Transfer from non-current assets held for sale	(1 432)
Provision charged	(3 314)
Exchange differences	(210)
As at 31 December 2007	**(4 988)**
Exchange differences	344
As at 31 December 2008	**(4 644)**

13. Property, Plant and Equipment

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

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
Balance as at 1 January 2008					
Cost	172 579	200 415	17 851	30 580	421 425
Accumulated depreciation	(37 507)	(103 489)	(10 254)	-	(151 250)
Impairment loss recognised	(2 715)	(3 254)	(12)	(22)	(6 003)
Net book value as at 1 January 2008	**132 357**	**93 672**	**7 585**	**30 558**	**264 172**
Exchange differences	(7 651)	(12 586)	(371)	(5 909)	(26 517)
Additions	9 865	37 796	4 898	38 081	90 640
Transfers	3 951	16 826	548	(21 325)	-
Disposals	(210)	(310)	(745)	(173)	(1 438)
Disposal of subsidiaries	(31 898)	(60)	(354)	-	(32 312)
Depreciation	(6 253)	(26 504)	(4 889)	-	(37 646)
Closing net book value	**100 161**	**108 834**	**6 672**	**41 232**	**256 899**
Balance as at 31 December 2008					
Cost	142 471	230 818	20 619	41 232	435 140
Accumulated depreciation	(40 045)	(119 352)	(13 940)	-	(173 337)
Impairment loss recognised	(2 265)	(2 632)	(7)	-	(4 904)
Net book value as at 31 December 2008	**100 161**	**108 834**	**6 672**	**41 232**	**256 899**

13. Property, Plant and Equipment (Continued)

Comparative information for 2007:

	Land and buildings	Machinery and equipment	Other	Assets under construction	Total
Balance as at 1 January 2007					
Cost	163 565	204 825	18 438	21 163	407 991
Accumulated depreciation	(59 712)	(117 972)	(14 639)	(683)	(193 006)
Impairment loss recognised	(2 910)	(24 404)	(649)	(3 066)	(31 029)
Net book value as at 1 January 2007	**100 943**	**62 449**	**3 150**	**17 414**	**183 956**
Exchange differences	8 242	10 914	428	3 270	22 854
Additions	1 459	13 842	3 642	37 554	56 497
Transfers	7 064	16 227	3 293	(26 584)	-
Acquisition of subsidiaries	8 751	-	197	1	8 949
Disposals	(804)	(4 105)	(1 167)	(568)	(6 644)
Disposal of subsidiaries	(15 725)	(1 459)	(194)	(1 152)	(18 530)
Depreciation	(6 583)	(12 320)	(2 404)	-	(21 307)
Reclassification from non-current assets held for sale	28 735	8 810	637	623	38 805
Impairment (charge)/release	275	(686)	3	-	(408)
Closing net book value	**132 357**	**93 672**	**7 585**	**30 558**	**264 172**
Balance as at 31 December 2007					
Cost	172 579	200 415	17 851	30 580	421 425
Accumulated depreciation	(37 507)	(103 489)	(10 254)	-	(151 250)
Impairment loss recognised	(2 715)	(3 254)	(12)	(22)	(6 003)
Net book value as at 31 December 2007	**132 357**	**93 672**	**7 585**	**30 558**	**264 172**

The significant decrease in impairment loss recognised in 2007 was due to its disposal together with property, plant and equipment of the subsidiaries disposed in the exchange of shares in the jointly controlled entity (Note 33).

As at 31 December 2008 bank borrowings are secured on property, plant and equipment with a carrying value of US$ 2 639 (31 December 2007: US$ 11 255) (Note 18).

As at 31 December 2008 management assessed the recoverable amount of property, plant and equipment and the adequacy of impairment losses recognised in prior periods. Discount rates of 12.3 percent and 19.2 percent for CZK denominated and RR denominated cash flows, respectively, have been used in estimating the recoverable value through discounted cash flows as at 31 December 2008 to determine value in use.

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.

14. Intangible Assets

The carrying value of intangible assets as at 31 December 2008 and 2007 was as follows:

	Goodwill	Trade mark	Other intangible assets	Total
Balance as at 1 January 2008				
Cost	1 255	33 200	25 662	60 117
Accumulated amortization	-	(2 369)	(8 502)	(10 871)
Net book value as at 1 January 2008	**1 255**	**30 831**	**17 160**	**49 246**
Additions	-	301	12 640	12 941
Disposals	-	-	(121)	(121)
Amortisation	-	(1 131)	(1 591)	(2 722)
Disposal of subsidiaries	(1 524)	(8 021)	(26)	(9 571)
Exchange differences	269	(427)	(3 085)	(3 243)
Closing net book value	**-**	**21 553**	**24 977**	**46 530**
Balance as at 31 December 2008				
Cost	-	24 801	34 542	59 343
Accumulated amortisation	-	(3 248)	(9 565)	(12 813)
Net book value as at 31 December 2008	**-**	**21 553**	**24 977**	**46 530**

14. Intangible Assets (Continued)

Comparative information for 2007:

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

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

Trade marks with fair value of US$ 6 563 were purchased in 2007 with the acquisition of CHETENG ENGINEERING s.r.o. (Note 33) and represent acquired trade mark, documentation and archives. In 2008 these trade marks were disposed due to sale of CHETENG ENGINEERING s.r.o. (Note 33).

Internally developed intangible assets mostly consist of patented and non-patented technologies.

Goodwill which arisen on acquisition of TECHENG CZ s.r.o. and CHETENG ENGINEERING s.r.o. in 2007 was written off due to sale of these companies in 2008 (Note 33).

15. Other Non-Current Financial Assets

	31 December 2008	31 December 2007
Long-term loans issued	69 976	99 349
Long-term receivables from construction contracts	-	9 444
Available-for-sale investments	125 088	4 428
Restricted cash	-	2 872
Forward foreign exchange contracts – cash flow hedges	26	554
Total Other Non-Current Financial Assets	**195 090**	**116 647**

Available-for-sale investments stated at cost

Entity	Country of Incorporation	31 December 2008 г.	% of share capital	31 December 2007 г.	% of share capital
OJSC Mashinostroitelny zavod “ZIO-Podolsk”[1]	Russian Federation	57 998	21	-	-
CJSC “Atomstroyexport” [2]	Russian Federation	32 344	11	-	-
CJSC “Chemical Engineering Group”	Russian Federation	30 633	15	-	-
CJSC “Sezam”	Russian Federation	481	22	576	22
UJV Rez a.s.	Europe	2 445	17	2 521	17
Other	Russian Federation	1 187	-	1 331	-
		125 088		**4 428**	

[1] 100% of the Group’s shares in OJSC “Mashinostroitelny zavod “ZIO-Podolsk” is pledged as collateral under short-term bank loan denominated in RR (Note 18).

[2] 100% of the Group’s shares in CJSC “Atomstroyexport” is pledged as collateral under short-term bank loan denominated in RR (Note 18).

15. Other Non-Current Financial Assets (Continued)

Available-for-sale investments stated at cost (continued)

The Group acquired a 20,83% interest in OJSC "Mashinostroitelny zavod "ZIO-Podolsk" in September 2008 from its intermediate parent company. Although the Group holds slightly in excess of 20% of the voting rights, management has concluded that they cannot exercise significant influence over the operating and financing policies of this entity.

This is a consequence of the fact that, whilst the Group has board representation and has appointed 2 directors out of a total 9 to represent their interests, the remaining 7 directors have been nominated by the entity's controlling shareholder and these 7 directors have sufficient voting power to approve or override any decision through coordinated voting. In addition, whilst significant decisions in respect of operating and financial policies are referred to the full Board of Directors for approval, the entity usually develops these policies in consultation with the majority shareholder prior to presenting them to the Board of Directors which, as a consequence, means that these policies are at a relatively advanced stage of development when presented to the full Board of Directors and usually subject to limited subsequent change.

Consequently, as management has concluded that the Group is unable to exert significant influence in respect of operating or financing policies of the entity, the investment in the shares of OJSC "Mashinostroitelny zavod "ZIO-Podolsk" has been classified as an available-for-sale investment.

Available-for-sale investments stated at cost comprise unquoted equity securities in the Nuclear Power Construction/Services, Chemical Machinery and Specialist Steel Industries. There is no market for these investments and there have not been any recent transactions with third parties that provide evidence of fair value. In addition, discounted cash flow techniques could not be applied due to a lack of financial information.

The Federal Law "On Joint Stock Companies" states that only shareholders with a 25% ownership interest or more have the right to request detailed financial information from the entity, in which they hold their investment. As there are indicators of impairment as a consequence of the significant decline in equity markets during the last quarter of 2008, management has requested financial information from the entities in which the Group holds minority stakes to enable management to assess whether the Group's investments could be impaired or not. However, management has not been able to obtain sufficient financial information prior to the date of the issuance of these consolidated financial statements from the entities themselves or from other public sources and, consequently, was unable to determine whether the Group's investments in OJSC "Mashinostroitelny zavod "ZIO-Podolsk" and CJSC "Atomstroyexport" are impaired or not as at 31 December 2008.

16. Other Non-Current Assets

	31 December 2008	31 December 2007
Advances issued	4 751	11 246
Deferred expenses on acquired software, not put into usage yet	-	4 917
Other non-current assets	1 525	2 381
Total Other Non-Current Assets	**6 276**	**18 544**

17. Trade and Other Accounts Payable

	31 December 2008	31 December 2007
Trade payables	138 526	120 923
Accounts due to customers for contract work	2 897	62
Derivatives	20 100	782
Other payables and accrued expenses	29 140	41 700
Total financial liabilities	**190 663**	**163 467**
Payroll accounts payable	13 130	20 053
Provision for unused vacation	4 536	4 475
Deferred VAT	3 398	6 981
Advances received	198 047	212 651
Short-term portion of long-term taxes payable (Note 18)	203	286
Other taxes payable	5 280	9 828
Total trade and other accounts payable	**415 257**	**417 741**

As at 31 December 2008 accounts payable were primarily denominated in RR except for US$ 15 373 denominated in US$, US$ 153 928 denominated in CZK, US$ 88 922 denominated in EUR and US$ 330 denominated in other currencies (31 December 2007: US$ 20 622 and US$ 66 066 denominated in US$ and CZK respectively).

Provision for unused vacations is recognized based on the analysis of the unused vacation per individual employees. The amount of US$ 4 536 is expected to be utilised during 2009.

18. Borrowings

Short-term loans and borrowings

	31 December 2008	31 December 2007
US$ denominated fixed rate	137 090	28 820
EURO denominated fixed rate	12 934	47 470
EURO denominated floating rate	14 856	-
CZK denominated floating rate	4	-
RR denominated fixed rate	48 192	44 202
RR denominated floating rate	-	10 000
	213 076	**130 492**
Add: current portion of long-term debt	8 968	34 159
Non-convertible bonds	135 576	-
Total short-term borrowings	**357 620**	**164 651**

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

	31 December 2008	31 December 2007
US$ denominated fixed rate	10,45%	9,25%
EURO denominated fixed rate	9,38%	8,48%
EURO denominated floating rate	5,54%	-
CZK denominated floating rate	1,84%	-
RR denominated fixed rate	12,72%	9,01%
RR denominated floating rate	-	7,83%
Non-convertible bonds	14,05%	-

As at 31 December 2008 short-term borrowings totalling US$ 122 308 (31 December 2007: US$ 11 422) are secured on the property and inventory of the Group. The carrying amount of pledged inventory, property, plant and equipment and available-for-sale investments is disclosed in Notes 11, 13 and 15, respectively.

The carrying amounts and fair values of non-convertible bonds are as follows:

	31 December 2008		31 December 2007	
	Carrying amounts	Fair values	Carrying amounts	Fair values
Non-convertible bonds	135 576	124 678	-	-

As at 31 December 2007 non-convertible bonds are recognised as long-term debt.

Changes of carrying amount of non-convertible bonds for years 2008 and 2007 are as follows:

Balance at 1 January 2007	**57 415**
Issuance	28 613
Amortization of discount	2 069
Effect of exchange rate changes	5 989
Balance at 31 December 2007	**94 086**
Issuance	67 194
Amortization of discount	2 971
Effect of exchange rate changes	(28 675)
Balance at 31 December 2008	**135 576**

Long-term borrowings

	31 December 2008	31 December 2007
US$ denominated fixed rate	36	-
RR denominated fixed rate	75 303	63 964
RR denominated floating rate	142	-
EURO denominated fixed rate	73 955	98 298
EURO denominated floating rate	3 162	-
	152 598	**162 262**
Non-convertible bonds	-	94 086
Total long-term borrowings	**152 598**	**256 348**

18. Borrowings (Continued)

The carrying amounts and fair values of long-term borrowings and non-convertible bonds are as follows:

	31 December 2008		31 December 2007	
	Carrying amounts	Fair values	Carrying amounts	Fair values
Non-convertible bonds	-	-	94 086	82 130
Long-term borrowings	152 598	146 802	162 262	162 262

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

	31 December 2008	31 December 2007
US$ denominated fixed rate	20,31%	-
RR denominated fixed rate	9,39%	7,50%
RR denominated floating rate	14,73%	-
EURO denominated fixed rate	11,38%	-
EURO denominated floating rate	5,63%	5,76%
Non-convertible bonds	-	8,80%

As at 31 December 2008, long-term borrowings totalling US$ 78 203 (31 December 2007: US$ 63 964) are secured on the property and inventory of the Group as well as shares of one subsidiary (Note 32). The carrying amount of pledged inventory and property, plant and equipment is disclosed in Notes 11 and 13, respectively.

During December 2008, the Group entered into a contract with a related party to sell and repurchase 19,89% of the shares in its subsidiary OJSC Izhorskiye Zavody for consideration of approximately US$ 7 866. The contract specifies that the shares should be re-purchased within one year for consideration of approximately US$ 8 570. This transaction has been accounted for as a secured financing transaction in the consolidated financial statements with the shares pledged under sale and repurchase agreements accounted for as investments in subsidiaries and a liability recognised for the fair value of the proceeds received. The difference between the fair value of the proceeds received and the repurchase price represents interest expense and is recognised in the consolidated income statement over the terms of the repurchase agreement using the effective interest method.

As at 31 December 2008 long-term loans had the following maturity profile:

	2009	2010	2011 and after	Total
US$ denominated fixed rate	-	10	26	36
RR denominated fixed rate	-	66 364	8 939	75 303
RR denominated floating rate	-	142	-	142
EURO denominated fixed rate	-	73 955	-	73 955
EURO denominated floating rate	-	3 162	-	3 162
	-	**143 633**	**8 965**	**152 598**

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

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

19. Long-Term Taxes Payable

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

	31 December 2008	31 December 2007
Current	203	-
1 to 2 years	2 727	3 111
Total restructured	**2 930**	**3 111**
Less: current portion of taxes payable (Note 17)	(203)	-
Total long term taxes payable	**2 727**	**3 111**

As at 31 December 2008 long-term taxes payable bore an effective interest rate of 5,5 percent per annum.

The fair value of long-term taxes payable as at 31 December 2008 totalled US$ 2 493 (31 December 2007: US$ 2 606). The fair value of long-term taxes payable is estimated by discounting the future cash outflows in accordance with the terms of restructured tax agreements at the market interest rate available to the Group at the balance sheet date of 9,4 percent.

20. Other Long-Term Liabilities

	31 December 2008	31 December 2007
Trade payables, long-term	4 492	3 857
Derivatives	7	-
Other long-term liabilities	4 594	9 507
	9 093	**13 364**

21. Equity

	Number of outstanding shares (thousands)		Number of treasury shares (thousands)		Share capital		Treasury shares	
	Preference shares	Ordinary shares	Preference shares	Ordinary shares	Preference shares	Ordinary shares	Preference shares	Ordinary shares
As at 1 January 2007	**2 750**	**35 480**	**(2 720)**	**(4 551)**	**32**	**410**	**(26 723)**	**(20 176)**
Currency translation	-	-	-	-	2	30	(1 945)	(1 467)
As at 31 December 2007	**2 750**	**35 480**	**(2 720)**	**(4 551)**	**34**	**440**	**(28 668)**	**(21 643)**
Currency translation	-	-	-	-	(6)	(72)	4 717	3 561
As at 31 December 2008	**2 750**	**35 480**	**(2 720)**	**(4 551)**	**28**	**368**	**(23 951)**	**(18 082)**

As at 31 December 2008 the authorized number of ordinary and preference shares totalled 70 700 thousand and 2 750 thousand (31 December 2007: 70 700 thousand and 2 750 thousand), respectively, both with a nominal value per share of RR 0,1.

As at 31 December 2008 the issued number of ordinary and preference shares totalled 35 480 thousand and 2 750 thousand (31 December 2007: 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. On liquidation, after the liability for cumulative unpaid dividends and the liquidation value of preference shares have been satisfied, both ordinary and preference shares holders participate equally in the distribution of the remaining net assets.

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.

As at 31 December 2008 a hedging reserve recorded within equity represented the effective portion of changes in the fair value of derivatives in the amount of US$ 17 119 (31 December 2007: US$ 6 580).

Dividends

Russian statutory financial statements are the basis for the Company's profit distribution and other appropriations. The basis of distribution is defined by the Russian legislation as a company's undistributed profit. The undistributed profit recognized in the published Russian statutory financial statements of the Company as at 31 December 2008 amounts to $US 4 080 (31 December 2007: $US 831).

In 2008 the Company did not declare and pay any dividends to holders of ordinary shares.

22. Construction Contracts

During 2008 the revenues and gross margin recognised on long-term-contracts amounted to:

	Year ended 31 December 2008	Year ended 31 December 2007
Contract revenue	345 956	197 207
Contract costs	(320 447)	(177 703)
Gross margin	**25 509**	**19 504**

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

Construction contracts in progress:

	Year ended 31 December 2008	Year ended 31 December 2007
Contract costs incurred and recognized profits (less losses) to date	980 855	645 486
Advances received on construction contracts	103 583	121 872

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

Retentions due from customers with a face value to $US 16 508 (31 December 2007: $US 15 386) have not been recognised as they cannot be reliably measured due to significant uncertainty in respect of the probability and timing of collection of these amounts receivable.

23. Cost of Sales

	Year ended 31 December 2008	Year ended 31 December 2007
Changes in inventories of finished goods and work in progress	(26 461)	(21 097)
Materials and components used	508 998	412 543
Labour costs	162 236	139 587
Services, including sub-contracting costs	157 038	134 160
Gas and fuel	75 423	72 762
Depreciation	32 191	16 919
Amortisation of intangible assets	1 759	1 790
Other	11 261	7 802
Total cost of sales	**922 445**	**764 466**

Total labour costs included in all income statement captions amounted to US$ 230 128 (2007: US$ 206 572):

	Year ended 31 December 2008	Year ended 31 December 2007
Short-term employee benefits	216 811	185 001
Termination fee	1 864	1 895
Pension charges	11 453	19 676
Total labour costs	**230 128**	**206 572**

24. Selling Expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Transportation	13 360	13 255
Services	10 816	7 085
Labour costs	8 756	9 313
Other	3 409	9 105
Total selling expenses	**36 341**	**38 758**

25. General and Administrative Expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Labour costs	59 136	57 672
Services	19 439	22 786
Taxes	5 858	6 729
Depreciation	2 318	4 388
Amortisation of intangibles	1 632	989
Administration overheads	8 788	7 625
Total general and administrative expenses	**97 171**	**100 189**

26. Other Operating Income and Expense

Other Operating Income

	Year ended 31 December 2008	Year ended 31 December 2007
Gain on disposal of subsidiaries, net (Note 33)	801	138 469
Change in provision for obsolete inventory	-	914
Impairment release on property plant and equipment (Note 13)	-	408
Gain on disposal of property, plant and equipment	559	-
Gain from sale of investments	837	-
Gain on disposal of other assets	613	-
Gain on forgiveness of the debt to the budget	-	5 999
Gain on derecognition of financial liability	986	-
Other gains	5 141	-
Total other operating income	**8 937**	**145 790**

26. Other Operating Income and Expense (Continued)

Other Operating Expense

	Year ended 31 December 2008	Year ended 31 December 2007
Change in provision for impairment of receivables	(10 069)	(20 089)
Change in provision for impairment of financial assets (Note 12)	-	(3 314)
Change in provision for obsolete inventory	(6 103)	-
Change in provision for other assets	-	(137)
Loss on disposal of property, plant and equipment	-	(488)
Loss on recognition of financial liability	-	(12 609)
Other losses	(4 001)	(5 928)
Total other operating expenses	**(20 173)**	**(42 565)**

27. Finance Income and Expense

	Year ended 31 December 2008	Year ended 31 December 2007
Interest income on loans issued	25 085	10 738
Net change in fair value of financial assets at fair value through profit or loss	97	-
Net foreign exchange gain	-	5 263
Finance income	**25 182**	**16 001**
Interest expense on financial liabilities measured at amortised cost	(57 380)	(37 411)
Net change in fair value of financial assets at fair value through profit or loss	-	(83)
Net foreign exchange loss	(7 276)	-
Finance expense	**(64 656)**	**(37 494)**
Net finance expense recognised in income statement	**(39 474)**	**(21 493)**

Finance expenses, recognized directly in equity

	Year ended 31 December 2008	Year ended 31 December 2007
Cash flow hedges	27 805	-
Foreign currency translation differences for foreign operations	26 871	3 412
Income tax on income and expense recognised directly in equity	(6 277)	-
Finance expenses recognised directly in equity, net of tax	**48,399**	**3 412**
Attributable to:		
Shareholders of the Company	48 399	3 412
Minority interest	-	-
Finance expenses recognised directly in equity, net of tax	**48 399**	**3 412**

28. Income Tax

	Year ended 31 December 2008	Year ended 31 December 2007
Income tax expense – current	(25 056)	(10 240)
Deferred tax income/(expense) – origination and reversal of temporary differences	(6 841)	94
Income tax expense	**(31 897)**	**(10 146)**

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

	Year ended 31 December 2008	Year ended 31 December 2007
Profit before taxation	22 380	130 462
Theoretical tax charge at statutory rate of 24%	5 371	31 311
Effect of different tax rates in other countries	5 646	9 916
Tax effect of items which are not deductible or assessable for taxation purposes:		
Gain from disposal of subsidiaries	(1)	(32 576)
Gain on derecognition of liability for tax penalties	(70)	(1 440)
Non-deductible expenses	9 875	4 461
Loss from the joint venture	10 938	1 923
Effect of changes in tax rate	138	(1 188)
Change in unrecognised deferred tax assets	-	(2 261)
Income tax expense	**31 897**	**10 146**

Most companies in the Group were subject to tax rates of 24% on taxable profits for 2008 and 2007.

The statutory income tax rate for companies of the Group registered in Russian Federation for the years 2008 and 2007 was 24%. Effective from 1 January 2009, the rate in Russian Federation has changed to 20%.

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

	31 December 2007	Disposed in 2008	Differences recognition and reversal	Exchange difference	Deferred tax recognised on equity	31 December 2008
Tax effects of deductible temporary differences:						
Property, plant and equipment	1 155	-	392	(251)	-	1 296
Provision for impairment of investments	686	-	(548)	(28)	-	110
Accounts payable and accruals	3 497	-	(949)	(315)	-	2 233
Inventories	17 771	-	(15 531)	(532)	-	1 708
Provision for inventory	2 959	-	1 577	(560)	-	3 976
Accounts receivable recognized using percentage of completion method	1 604	-	9 406	(1 654)	-	9 356
Provision for impairment of receivables	3 871	-	(880)	(438)	-	2 553
Loss carry forward	9 353	-	(1 176)	(1 357)	-	6 820
Other	9 852	(1)	(7 467)	(1 058)	4 881	6 207
Tax effects of taxable temporary differences:						
Property, plant and equipment	(19 372)	1 650	502	1 039	-	(16 181)
Intangible assets	(1 964)	-	982	172	-	(810)
Inventories	(8 197)	-	(786)	1 470	-	(7 513)
Accounts receivable	(22)	-	(3 307)	221	-	(3 108)
Accounts receivable recognized using percentage of completion method	(17 257)	-	13 008	836	-	(3 413)
Provision for impairment of receivables	(4 497)	-	(2 618)	1 143	-	(5 972)
Provision for repairs	(7 190)	-	(763)	266	-	(7 687)
Accounts payable	(3 023)	-	2 552	215	-	(256)
Other	(4 546)	1 646	(1 235)	95	660	(3 380)
Net tax effect of temporary differences	**(15 320)**	**3 295**	**(6 841)**	**(736)**	**5 541**	**(14 061)**
Total net deferred tax (liability)/assets	**(15 320)**	**3 295**	**(6 841)**	**(736)**	**5 541**	**(14 061)**

28. Income Tax (Continued)

Comparative information for year 2007:

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

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, the deferred tax asset of one company of the Group cannot be offset against the deferred tax liability of another company.

As at 31 December 2008 the Group has not recognized a deferred tax liability in respect of US$ 26 060 (31 December 2007: US$ 24 408) of temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

29. Provisions for Liabilities and Charges

	Provision for loss-making contracts	Provision for warranties	Provision for legal claims	Provision for spoilage	Other provisions	Total
As at 1 January 2008	**696**	**3 843**	**215**	**328**	**1 595**	**6 677**
(Used)/ charge	(687)	1 057	(212)	(324)	2 330	2 164
Exchange differences	(9)	(231)	(3)	(4)	(829)	(1 076)
As at 31 December 2008	**-**	**4 669**	**-**	**-**	**3 096**	**7 765**
Less amount included in other long-term liabilities	-	(1 760)	-	-	-	(1 760)
As at 31 December 2008	**-**	**2 909**	**-**	**-**	**3 096**	**6 005**

29. Provisions for Liabilities and Charges (Continued)

Comparative information for year 2007:

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

Provision for loss-making contracts

Provisions for expected losses on loss-making contracts are recognised when the expected revenues are lower than the expected costs to complete. An outstanding balance of provisions for loss-making contracts as at 31 December 2007 was fully utilised at the amount of US$ 696 during the reporting period. At the end of the reporting period there is no provision for loss-making contracts.

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$ 4 669 (2007: US$ 3 843) has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns.

Provision for legal claims

The amounts shown comprise gross provisions in respect of certain legal claims brought against the Group by customers. The balance as at 31 December 2007 of US$ 215 was fully utilised during 2008.

Provision for spoilage

Provision for spoilage is recognized when there is a significant probability of spoilage in the production of a new product. The balance as at 31 December 2007 of US$ 328 was fully utilised during 2008.

30. Contingencies, Commitments and Operating Risks

Capital commitments

As at 31 December 2008 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for US$ 133 862 (31 December 2007: US$ 95 808).

Taxation

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

Insurance policies

The Group insures all significant property and work-in-progress and shipments in relation to significant contracts. As at 31 December 2008, most of the Group's property is insured.

Environmental matters

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

30. Contingencies, Commitments and Operating Risks (Continued)

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 loans issued to third parties. The total amount of guarantees is US$ 3 547 (31 December 2007: US$ 22 550).

The Group has guaranteed loans issued to related parties. The total amount of guarantees is US$ 46 015 (31 December 2007: US$ 0).

The Group's borrowings and its fulfilment of contractual obligations were secured by third party guarantees in the amount of US$ 113 (31 December 2007: US$ 686).

31. Earnings per Share

Earnings per share is calculated by dividing the net income attributable to participating shareholders by the weighted average number of ordinary shares in issue during the period, excluding the average number of ordinary shares purchased by the Group and held as treasury shares (Note 21).

Earnings per share from continuing operations are calculated as follows:

Basic earnings per share

	Year ended 31 December 2008	**Year ended 31 December 2007**
Weighted average number of ordinary shares outstanding (thousands)	35 480	35 480
Adjusted for weighted average number of treasury shares (thousands)	(4 551)	(4 551)
Weighted average number of ordinary shares in issue (thousands)	30 929	30 929
Profit/(loss) for the year attributable to the Group's equity holders	**(11 117)**	**123 853**
Basic earnings per share	**(0,3594)**	**4,004**

Diluted earnings per share

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

32. Principal Subsidiaries

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

Entity	Country of Incorporation	Activity	31 December 2008 % of share capital	31 December 2007 % of share capital
OJSC Izhorskiye Zavody (“Izhorskiye Zavody”) [1]	Russia	Production of equipment for nuclear power plants and mining equipment	80,1	80,1
OMZ SpecStal (“SpecStal”) LLC	Russia	Production of specialty steels	100	100
OMZ Gornoe oborudovanie i tehnologii (“GoiT”) LLC	Russia	Engineering and sales of mining equipment	100	100
CJSC Komplekt-Atom-Izhora	Russia	Engineering and installation of nuclear power plant equipment	100	100
IZ-Kartex LLC [4]	Russia	Production of mining equipment	80,1	80,1
OMZ Sibir LLC	Russia	Sales of mining equipment	100	100
OMZ LLC	Russia	Corporate services	100	100
IZ-ZMK LLC [4]	Russia	Production of steel constructions	80,1	80,1
OMZ LP LLC [4]	Russia	Production of steel mouldings	80,1	80,1
ŠKODA JS a.s. [2]	Czech Republic	Production of equipment for nuclear power plants	100	100
PILSEN STEEL s.r.o. [3]	Czech Republic	Production of specialty steels	100	100
TECHENG CZ s.r.o. (Techeng)	Czech Republic	Building owner	-	100
CHETENG Engineering s.r.o. (Cheteng)	Czech Republic	Research Studies Institute	-	100
MK Uralmash CJSC	Russia	Production of drilling, mining and metallurgical equipment	50	50

[1] 40% of the Groups’ shares in Izhorskiye Zavody is pledged as collateral under long-term bank loan denominated in RR and 19,98% is pledged as collateral under repurchase agreement to obtain a short-term loan denominated in RR (Note 18).

[2] 100% of the Groups’ shares in ŠKODA JS is pledged as collateral under short-term bank loan denominated in RR (Note 18).

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

[4] The % of share capital disclosed above is the amount attributable to shareholders of the Company. The Company is able to control 100% of the shares of these subsidiaries.

33. Business Combinations and Disposals

During in year 2008 the Group did not acquire new companies.

Acquisitions in 2007

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

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

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

33. Business Combinations and Disposals (Continued)

Acquisitions in 2007 (Continued)

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

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

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

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

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

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

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

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

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

The Group transferred 92,52% of ordinary shares and 19,12% of preferences shares (entire interest owned by the Group) of OJSC Uralmashzavod and related subsidiaries. The other venture, Dalmers Service Limited, transferred 99.97% share capital of OJSC Machine-building Corporation ORMETO-UUMZ and cash in the amount of US$ 27 mln.

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

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

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

33. Business Combinations and Disposals (Continued)

Acquisitions in 2007 (Continued)

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

As a result of the transaction, the Group:

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

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

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

The interest in the jointly controlled entity owned by the Group is as follows:

	31 December 2008	**31 December 2007**
Current assets	121 282	102 514
Property, plant and equipment	90 061	120 971
Other non-current assets (including goodwill)	10 213	30 232
Current liabilities	(130 163)	(126 203)
Non-current liabilities	(50 397)	(32 296)
Net assets owned by the Group	**40 996**	**95 218**

Result from operations for the years ended 31 December 2008 and 31 December 2007 of the jointly controlled entity is as follows:

	Year ended 31 December 2008	**Year ended 31 December 2007**
Revenue	170 045	36 611
Operating and other expenses	(200 583)	(44 341)
Loss before tax	**(30 538)**	**(7 730)**
Income tax expense	(1 395)	(283)
Loss attributable to the Group	**(31 933)**	**(8 013)**

The Group determined the recoverable amount of its investment in Uralmash CJSC in order to assess whether the investment is impaired as of 31 December 2008. The recoverable amount was determined with the assistance of independent appraisers.

The following key assumptions were used in determining the recoverable amounts of the joint venture:

- Cash flows were projected based on actual operating results and the ten-year business plan.
- The joint venture includes two major production plants: OJSC Uralmashzavod and OJSC ORMETO-UUMZ. The anticipated annual production growth included in the cash flow projections for OJSC Uralmashzavod and OJSC ORMETO-UUMZ were 12-51% and 0-14% for the years 2009 to 2014, respectively. Management plans to achieve stable production volume the seventh year of the business plan.

33. Business Combinations and Disposals (Continued)

Acquisitions in 2007 (Continued)

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

- Cash flows for a further four years were extrapolated assuming no significant growth in production, and revenue and expenses increasing in line with inflation.
- Discount rates of 19.2% and 18.2% were applied to the cash flows of OJSC Uralmashzavod and OJSC ORMETO-UUMZ, respectively. The discount rate was estimated based on an industry average weighted average cost of capital. The discount rate for OJSC Uralmashzavod also included an additional risk-premium of 1% to reflect the risks associated with significant projected growth embedded in the business plan.
- A terminal value was derived at the end of the 10-year interim period. A terminal growth rate of 3.5% was considered in estimating the terminal value for the plants.

The values assigned to the key assumptions represent management's assessment of future trends in the machinery production industry and are based on both external sources and internal sources.

The above estimates are particularly sensitive in the following areas:

- An increase of one percentage point in the discount rate used would have increased the impairment loss by US$ 9 303.
- A 10% decrease in gross margin would have increased the impairment loss by US$ 23 498.

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

Fair value of investment in Uralmash CJSC	103 568
Loss attributable to the Group	(8 013)
Exchange difference	(337)
Investment in Uralmash CJSC as at 31 December 2007	**95 218**
Loss attributable to the Group	(31 933)
Impairment of investment	(13 641)
Exchange difference	(8 648)
Investment in Uralmash CJSC as at 31 December 2008	**40 996**

As at 31 December 2008 created jointly controlled entity had contractual commitments for the purchase of property, plant and equipment from third parties for US$ 6 053.

Disposals in 2008

In July 2008 the Group disposed of 100% of Progress LLC to related parties for a total cash consideration of US$ 24 112 (RR 599 million). The net assets of the subsidiary sold were US$ 22 415 as at the date of disposal and the Group recognised a gain from the sale of the subsidiary within other operating income in the amount of US$ 1 697. As at the reporting date, the cash consideration has been paid.

In May 2008 the Group disposed of 100% of Territorialnaya Kompaniya of UZTM LLC to the joint venture for a total consideration of US$ 20 (or RR 500 thousand). The net assets of the subsidiary were US$ 1 493 as at the date of disposal and the Group recognised a loss from the sale of the subsidiary within other operating income in the amount of US$ 1 473. As at the reporting date, the cash consideration has been paid.

In September 2008 the Group disposed of 100% of CHETENG CZ, s.r.o and TECHENG CZ s.r.o. to a related party Chemical Engineering Group CJSC for total consideration of US$ 13 879 (RR 345 million). The net assets of the subsidiary were US$ 13 077 as at the date of disposal and the Group recognised gain from the sale of the subsidiary within other operating income in the amount of US$ 802. As at the reporting date, the cash consideration was not fully paid. The receivable due from the acquirer is US$ 1 531 as at 31 December 2008.

In 2008 the Group liquidated subsidiary Avtomatika LLC. The loss on disposal of the company was US$ 225 and was recognised by the Group within other operating expense.

33. Business Combinations and Disposals (Continued)

Disposals in 2008 (Continued)

Aggregate effect of disposals of the subsidiaries to the financial statements

	IFRS carrying amount immediately before disposal
Cash and cash equivalents	1 006
Inventories	207
Trade and other receivables	1 538
Other current assets	94
Property, plant and equipment	32 312
Intangible assets	8 097
Trade and other payables	(5 337)
Borrowings	(3 422)
Deferred tax liabilities	(2 788)
Other liabilities	(230)
Net assets	**31 477**

Effect of disposals on cash flow from investing activities

	US$
Cash proceeds	36 480
Cash disposed, including	
- disposal of shares in Techeng CZ and Cheteng Engineering	(431)
- disposal of TK UZTM	(467)
- disposal of OOO Progress	(106)
- other disposals	(2)
Cash inflows from the sale of subsidiaries	**35 474**

In December 2008 the Group settled contracts for the sale of 19,89% of shares in its subsidiary Izhorskiye Zavody with the buy-back obligation for the total consideration of approximately US$ 7 866 (RR 221,3 million). In accordance with these contracts the obligation for the buy-back should be settled in 1 year for the total consideration of approximately US$ 8 570 (RR 241 million). This transaction was recognised as a collateralised financing transaction in the financial statements.

Disposals in 2007

In March 2007 the Group sold its 100% interest in OMZ-DRO LLC to a third party for US$ 2 225. The net assets of the subsidiary disposed as at the date of disposal totalled US$ 2 411 and the Group recorded a loss on the disposal of US$ 186 within other operating income and expenses (Note 26).

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

In October 2007 the Group sold its 100% share in CJSC Uralmash-Service, UMZ-Engineering LLC and CJSC Termit-63 to its joint venture for total consideration of US$ 1 with gain recognised within operating income and expenses totalling US$ 1 693 (Note 26).

Effect of disposals on cash flow from investing activities

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

34. Financial Risk and Capital Management

Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

Subsequent to the reporting date, the Russian Ruble and the Czech Koruna have declined in value by approximately 16% and 11% respectively, against the US$. Management of the Group has not completed its analysis of the effect on the Group's operations and financial position; however, the sensitivity analysis provided in Note 33 shows the effects of reasonably possible changes in foreign exchange rates on the Group's financial assets and liabilities as at the reporting date.

	31 December 2008			
	Euro weakening by 25%	**Euro strengthening by 25%**	**US$ weakening by 25%**	**US$ strengthening by 25%**
Income statement				
Revaluation of cash	2 226	(2 226)	563	(563)
Revaluation of trade receivables	26 346	(26 346)	4 493	(4 493)
Revaluation of payables	(18 805)	18 805	(5 916)	5 916
Revaluation of loans issued	17 904	(17 904)	-	-
Short-term borrowings	(6 947)	6 947	(34 272)	34 272
Long-term borrowings	(19 279)	19 279	(9)	9
Derivative financial assets	7 561	(7 561)	-	-
	9 006	**(9 006)**	**(35 141)**	**35 141**
Equity				
Derivative financial assets and liabilities	51 612	(51 612)	-	-

Comparative information for year 2007:

	31 December 2007			
	Euro weakening by 25%	**Euro strengthening by 25%**	**US$ weakening by 25%**	**US$ strengthening by 25%**
Income statement				
Revaluation of cash	3 580	(3 580)	40	(40)
Revaluation of trade receivables	-	-	9 990	(9 990)
Revaluation of payables	-	-	(4 910)	4 910
Revaluation of loans issues	23 655	(23 655)	-	-
Short-term borrowings	(11 305)	11 305	(6 860)	6 860
Long-term borrowings	(23 405)	23 405	-	-
Derivative financial assets	6 440	(6 440)	100	(100)
	(1 035)	**1 035**	**(1 640)**	**1 640**
Equity				
Derivative financial assets and liabilities	30 820	(30 820)	95	(95)

34. Financial Risk and Capital Management (Continued)

Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Price risk

The Group is exposed to price risk on trading commodities. The commodity price risk arises due to purchases of nickel used for production purposes under contracts that are based on floating prices. This risk is mitigated by using commodity swaps. The Group actively manages this risk based on the plan of future consumption of nickel for a period of six months. The Group also has unquoted equity investments in several entities that are classified as available-for-sale investments.

(iii) Interest rate risk

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

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

(iv) Derivatives

Nominal and fair value of derivatives:

	Nominal value 31 December 2008		Nominal value 31 December 2007		Fair value 31 December 2008		Fair value 31 December 2007	
	Derivatives with positive fair value	Derivatives with negative fair value	Derivatives with positive fair value	Derivatives with negative fair value	Positive	Negative	Positive	Negative
Hedging instruments								
Currency derivatives	30 918	179 163	146 532	-	143	(17 318)	8 361	-
Commodity derivatives	-	-	-	3 886	-	-	-	(408)
Trading instruments								
Currency derivatives	8 029	22 305	14 363	-	119	(2 365)	737	-
Commodity derivatives	-	268	-	3 912	-	(425)	-	(375)

Volume of hedged cash flows:

Volume of hedged cash flows	**Within 1 year**		**1 – 5 years**	
Balance as at 31 December 2008	**Volume of hedged cash flows**	**Fair value of hedging derivatives**	**Volume of hedged cash flows**	**Fair value of hedging derivatives**
Currency risk exposure				
Hedging of receivables	202 898	16 376	7 374	19
Commodity risk exposure				
Hedging of liabilities	(268)	(425)	-	-
Total	**202 630**	**15 951**	**7 374**	**19**

Comparative information for year 2007:

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

34. Financial Risk and Capital Management (Continued)

Financial risk factors (Continued)

(b) Credit risk

Credit risk is a risk of financial loss to the Group if a customer or counterparty to transaction fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The Group's policy is generally to work with the customers on partial prepayment. Significant advances payments are incorporated into contracts with customers. Bank guarantees and letters of credit are used to secure receivables from some customers. The Group's standard contractual terms include penalty interest on late payments to encourage timely settlement.

The Group has a decentralized credit risk management function that is performed on an individual company basis. Monitoring of credit quality of customers is performed by analyzing whether they are in a difficult financial position or subject to bankruptcy. Customers within the equipment for nuclear power plants segment are government agencies or companies controlled by government. As at 31 December 2008 trade receivables and accounts due from customers for contract work related to equipment for nuclear power plants segment amounted to US$ 18 153 (2007: US$ 90 377). Although collection of receivables can be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 10).

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

The table summarizes the maximum exposure to credit risk:

Carrying amount as at 31 December 2008	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
Cash and cash equivalents	36 498	-	-	36 498
Trade receivables	83 782	22 305	20 128	126 215
Accounts due from customers for contract work	87 043	-	-	87 043
Other receivables	12 282	-	18 721	31 003
Short-term loans issued	25 202	-	-	25 202
Promissory notes	-	-	4 644	4 644
Positive fair values of financial derivatives	117	-	-	117
Long-term loans issued	69 976	-	-	69 976
Restricted cash	20 072	-	-	20 072
	334 972	**22 305**	**43 493**	**400 770**

Comparative information for year 2007:

Carrying amount as at 31 December 2007	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
Cash and cash equivalents	57 300	-	-	57 300
Trade receivables	115 643	16 203	7 167	139 013
Accounts due from customers for contract work	45 224	-	-	45 224
Other receivables	23 658	-	28 871	52 529
Promissory notes	2 261	-	4 988	7 249
Positive fair values of financial derivatives	8 573	-	-	8 573
Long-term loans issued	99 349	-	-	99 349
Long-term receivable from construction contracts	9 444	-	-	9 444
Restricted cash	2 872	-	-	2 872
	364 324	**16 203**	**41 026**	**421 553**

In addition to the credit exposure disclosed above for recognised assets, the Group also has a gross credit exposure for guarantees on loans to third and related parties in the total amount of US$ 49 562 (31 December 2007: US$ 26 097).

34. Financial Risk and Capital Management (Continued)

Financial risk factors (Continued)

(c) Liquidity risk

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

Prudent liquidity risk management includes maintaining sufficient cash and availability of funding from an adequate amount of committed credit facilities. Group maintains flexibility in funding by maintaining availability under committed credit lines. As at 31 December 2008 the Group has unused credit facilities in the amount of US$ 127 180 (31 December 2007: US$ 68 606).

The table below analyses the Group's financial liabilities which will be settled on a gross basis into relevant maturity based on the remaining period at the balance sheet to the together with the borrowings).

The maturity analysis of financial liabilities other than derivatives and guaranties as at 31 December 2008 is as follows:

	Less than 1 year	1-2 years	2-5 years	Total
Trade and other payables	190 663	3 562	5 531	199 756
Short-term borrowings	222 044	-	-	222 044
Long-term borrowings	-	143 633	8 965	152 598
Bonds	135 576	-	-	135 576
	548 283	**147 195**	**14 497**	**709 974**

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

	Less than 1 year	1-2 years	2-5 years	Total
Trade and other payables	163 467	3 857	-	167 324
Short-term borrowings	164 651	-	-	164 651
Long-term borrowings	-	162 262	-	162 262
Bonds	-	94 086	-	94 086
	328 118	**260 205**	**-**	**588 323**

Contractual maturity obligation for derivatives as at 31 December 2008:

	Total	Less than 3 months	3 - 12 months	1 - 5 years
Derivatives with positive fair value				
Currency derivatives				
Inflow of financial resources	15 500	5 058	8 657	1 785
Outflow of financial resources	(15 233)	(5 012)	(8 486)	(1 735)
Derivatives with negative value				
Currency derivatives				
Inflow of financial resources	205 682	50 647	148 758	6 277
Outflow of financial resources	(225 373)	(55 678)	(163 395)	(6 300)
Commodity derivatives				
Outflow of financial resources	(425)	(425)	-	-

Contractual maturity obligation for derivatives as at 31 December 2007:

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

34. Financial Risk and Capital Management (Continued)

Financial risk factors (Continued)

The contractual maturities of guarantee obligations of US$ 49 562 (2007: US$ 26 097) are between 2012-2014 (31 December 2007: 2014).

(d) Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-redeemable preference shares and minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

From time to time the Company purchases its own shares on the market; the timing of these purchases depends on market prices. Buy and sell decisions are made on a specific transaction basis by management; the Group does not have a defined share buy-back plan.

There were no changes in the Group's approach to capital management during the year.

The Company is subject to external capital requirements that require that its net assets as determined in accordance with Russian Accounting Principles must exceed its charter capital at all times.

35. 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 amortized 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 (see Note 15).

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. The 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.

36. Reconciliation of Classes of Financial Instruments with Measurement Categories

The following tables provide a reconciliation of classes of financial assets and liabilities with the measurement categories as at 31 December 2008:

	Loans and receivables	Available for sale financial assets	Assets designated at FVTPL *	Financial derivatives - hedging	Total
ASSETS					
Cash and cash equivalents (Note 9)					
Cash on hand and balances with the bank	30 232	-	-	-	30 232
Cash equivalents	6 266	-	-	-	6 266
Trade and other receivables (Note 10)					
Trade receivables	106 087	-	-	-	106 087
Accounts due from customers for contract work	87 043	-	-	-	87 043
Forward foreign exchange contracts – cash flow hedges	-	-	117	-	117
Other receivables	12 282	-	-	-	12 282
Other current financial assets (Note 12)					
Short-term loans issued	25 202	-	-	-	25 202
Restricted cash	20 072	-	-	-	20 072
Derivatives	-	-	119	-	119
Other non-current assets (Note 15)					
Long-term loans issued	69 976	-	-	-	69 976
Available-for-sale investments	-	125 088	-	-	125 088
Forward foreign exchange contracts – cash flow hedges	-	-	-	26	26
TOTAL FINANCIAL ASSETS	**357 160**	**125 088**	**236**	**26**	**482 510**
NON-FINANCIAL ASSETS	**-**	**-**	**-**	**-**	**792 472**
TOTAL ASSETS	**357 160**	**125 088**	**236**	**26**	**1 294 982**

* FVTPL = fair value through profit and loss

All the group's financial liabilities except for derivatives are carries at amortised costs. Derivatives belong to the fair value through profit or loss measured at US$ 236 and financial derivatives – hedging at US$ 26.

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

Comparative information for 2007:

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

* FVTPL = fair value through profit and loss

37. Post Balance Sheet Events

Subsequent to 31 December 2008, the Group has obtained new credit facilities in the total amount of US$ 117 561 for financing of certain projects and to increase cash available to finance working capital. As at the date of the issuance of the financial statements, the limit on unused lines of credit opened as at 31 December 2008 and after the reporting date was US$ 85 118.